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From compact disc to hard disc

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Different visions of the Horizon

Bernard Gray, Page 13

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Why floating is fashionable

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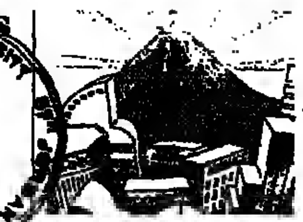

Today's surveys

Japanese Finance

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World Business Newspaper http://www.FT.com TUESDAY MARCH 25 1997

Moscow 'adjusted figures' to improve economic forecast

Russian statisticians manipulated figures to give the impression that the economy was growing, a group of influential independent economists says. Kremlin statisticians boosted their estimate of the size of the hidden economy for this year, but left the 1996 figures, which they were using as a basis for comparison, unchanged. They should have come up with a decline of about 6 per cent in GDP in January, the economists say, instead of the much trumpeted slight increase. Page 14

Israel seeks US mediation: Israel is looking to the US to save the Middle East peace process from collapse after Israeli troops and Palestinians clashed for a third day in the West Bank towns of Bethlehem and Hebron. Page 14

Suez and Lyonnaise poised for merger: Shares in Suez and Lyonnaise des Eaux fluctuated on signs that the two French groups were close to deciding on a merger which would create a company primarily utilities services to governments around the world. Page 15

NZ seeks cut in EU butter duties: New Zealand asked the World Trade Organisation to overturn high European Union duties on butter which spreads when cold. The EU claims the product's manufacturing process does not convert cream directly into butter. Page 14

Clinton set for budget concessions: US president Bill Clinton is prepared to drop some of his plans for tax cuts in an effort to reach agreement with the Republican-controlled Congress to balance the federal budget. Page 6

Lehman ahead in buoyant market: Wall Street's rising quarterly earnings continued into 1997, according to results from US investment bank Lehman Brothers, but the possibility of a US interest rate increase has damped predictions for the rest of the year. Page 15

Kirch seeks $590m loan: German media company KirchGroup confirmed that it was negotiating with banks over a large-scale loan, believed to be in the region of DM1bn ($590m). Page 15; Observer, Page 13; Lex, Page 14

Call for reform of EU aid funds: The European Union's structural funds, which are used to aid poorer areas, should be simplified, and member states given a bigger role in implementing them, social affairs commissioner Padraig Flynn said. Page 2

Pérez returns to politics: Ex-Venezuelan president Carlos Andrés Pérez, who survived two coup attempts but was impeached in 1993, returned to Venezuela's political arena as head of a movement he claims is seeking to rescue a discredited political system. Page 6

Bre-X defends size of gold deposit: Canadian exploration company Bre-X Minerals rejected doubts about the size of what it claims to be the world's largest gold deposit and said it had "absolute confidence" in the assay results from the Indonesian site. Page 15

Mexico seeks more power stations: Mexico is to grant four concessions to build and lease power stations and will sell minority stakes in its petrochemical industry. Page 4

Big Russian companies criticised: Russia's 100 biggest companies have "extremely serious problems of corporate governance" and many have flouted shareholders' rights, a study shows. Page 2

Thrall to revive UK wagon building: US rail wagon maker Thrall Car Manufacturing Company plans to revive wagon building in the UK by opening a works to make 2,500 wagons over five years. Page 10

Thais forced to save: A compulsory savings scheme for government and private-sector employees will begin to prop up Thailand's battered financial markets this week. Page 8

Spain lifts Lomé block from S Africa: Spain lifted its block on South Africa's partial membership of the Lomé Convention, which links the European Union with African, Caribbean and Pacific countries. Page 4

VSNL raises $448m: Videsh Sanchar Nigam, India's sole provider of international telecommunications, raised an initial $448m in the country's largest international equity issue. Page 15

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	6,802.90	(-1.89)
NASDAQ Composite	1,238.67	(-15.40)
Europe and Far East		
CAC40	2,578.28	(-7.85)
DAX	3,321.84	(+23.60)
FTSE 100	4,214.8	(-40.0)
Nikkei	18,043.82	(-589.34)

■ US LUNCHTIME RATES	
Federal Funds	5¼%
3-mth Treas Bills: Yld	5.4%
Long Bond	95⅞
Yield	6.95%

■ OTHER RATES		
UK: 3-mo Interbank	6⅝%	(6⅝%)
UK: 10 yr Gilt	97½	(97½)
France: 10 yr OAT	97.87	(97.7)
Germany: 10 yr Bund	100.63	(100.53)
Japan: 10 yr JGB	104.6827	(104.5627)

■ NORTH SEA OIL (Argus)		
Brent Dated	$18.92	(19.065)

■ GOLD		
New York: Comex (Mar)	$350.4	(353.0)
London: close	$350.5	(351.75)

■ DOLLAR		
New York: lunchtime		
£	1.61755	
DM	1.68735	
FFr	5.6915	
SFr	1.458	
Y	122.775	
London:		
£	1.6122	(1.6038)
DM	1.6892	(1.6834)
FFr	5.6955	(5.689)
SFr	1.4577	(1.452)
Y	122.815	(122.43)
Tokyo close:	Y 122.85	

■ STERLING		
DM	2.7217	(2.6997)

Companies are to press ahead with talks on joint steel company

Krupp drops bid for Thyssen

By Peter Norman in Bonn

Krupp Hoesch, tha German steel and engineering group, last night unaxpectedly dropped its hid for its larger rival Thyssen and agreed instead to press ahead with talks to form a joint steel company.

In a statement, signed by the two companies' chief executives and Mr Wolfgang Clement, the economics minister of North Rhine Westphalia, Krupp pledged not to make any future bid for Thyssen.

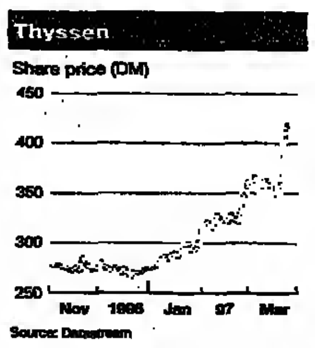
The two companies, which have overlapping interests in distribution and auto parts manufacture as well as a joint stainless steel subsidiary, said they would study the possibility of co-operation in areas other than steel.

In the meantime, they said the talks on merging their carbon steel interests were "progressing well" and that the planned joint company would enhance Germany's viability as a base for steelmaking.

Krupp Hoesch

Source: Datastream

Thyssen



Source: Datastream

The future joint steel company will provide Mr Gerhard Cromme, Krupp's chief executive, with about 75 per cent of the synergies worth an estimated DM1hn ($590m) a year he hoped to realise hy the full bid for Thyssen. But Mr Dieter Vogel, Thyssen chief executive, has said his company will be the dominant partner because it is the larger.

The two-paragrapb statement marked the end of a highly unusual and dramatic offer which valued Thyssen at DM13.6bn and caused widespread concern that Anglo-Saxon style hostile bids might become part of the German financial scene.

Tha news last week that Krupp would hid DM435 in cash for each Thyssen share – and that the offer was to be financed by borrowing – caused ootrage among politicians from both left and right.

It also triggered widespread condemnation of tbe banks supporting Krupp and brought workers from both companies on to the streets protesting against possible joh losses.

Although the Krupp bid was put on ice until next Thursday after the North Rhine Westphalian government persuaded tha two companies to discuss merging their steel interests, the anger persisted.

Ahout 1,000 steelworkers demonstrated outside the Deutsche Bank in Düsseldorf yesterday and more than 30,000 Thyssen workers are expected to demonstrate in Frankfurt today at the headquarters of Deutsche Bank, which advised Krupp alongside Dresdner Bank and Goldman Sachs of the US.

The speed of last night's announcement came as a surprise because Krupp had set the Thursday deadline to establish wbether a joint steel company would be feasible. Moreover, shortly before the breakthrough, Thyssen bad issued a strongly-worded statement appearing to mark the start of its defence against the planned bostile bid.

It claimed the bid would result in a company with a "very risky" financial structure, with an equity capital of only DM3hn and liabilities of DM48bn.

Backars of the Krupp bid yesterdsy dismissed suggestions that doubts among Germany's conservativa hanking community had prompted Krupp to abandon the bid.

They added that Mr Cromme's move had done more to produce a rationalisation of the two groups' interests in two weeks than talks over the past two decades.

Editorial Comment, Page 13; Lex, Page 14; Steelworkers turn heat on banks, Page 16

S Korea reopens probe into Hanbo scandal

By Jack Burton in Seoul

Sontb Korean prosecutors have reopened an investigation into the Hanbo loan scandal that threatens to undermine further the government of President Kim Young-sam and exacerbate the nation's economic woes.

At the centre of the investigation are fresb allegations that the president's soo, Mr Kim Hyun-chul, received $225m in rebates on the purchase of equipment supplied hy a German company for Hanbo's giant steel mill.

The Hanbo group collapsed in January under debts of nearly $6bn associated with the construction of the world's sixth largest steel mill. Ten senior government officials and businessmen have gone on trial for allegedly pressing banks to lend to Hanbo in return for kickbacks.

Prosecutors this week are expected to question executives from Hanbo's main creditor banks and senior government officials about their involvement in arranging loans for the failed steel group without securing sufficient collateral.

There are also worries that renewed investigation of the banks will cause them to reduce lending and create a credit squeeze, while harming their ability to borrow overseas at competitive rates.

The recent collapse of the Hanbo and Sammi steel groups has led to the downgrading of credit ratings for several Korean banks, raising the cost of foreign borrowing.

The central bank yesterday provided $1bn in low-interest emergency funds to seven banks that have had difficulty in borrowing overseas. Bank presidents rejected suggestions that some large banks were in danger of collapse.

The prosecutors' renewed probe of Hanbo comes after widespread criticism that an initial investigation was hasty and inadequate – the chief prosecutor in the case was sacked on Friday. There

Continued on Page 14

'War games' rumours hit Taiwan shares

Chinese exercises may cloud Gore visit

By Laura Tyson in Taipei and Tony Walker in Beijing

Taiwanese share prices fell 3.5 per cent yesterday after media reports that China would hold military exercises near the island, possibly to protest against the visit hy the Dalai Lama, Tibet's exiled spiritual leader.

The reports threatenad to overshadow the visit to Beijing of Mr Al Gore, the US vice-president, who arrived last night on a mission to strengthen Sino-US relations.

Mr Gore's visit, the highest level US mission to Beijing since the Tiananmen Square massacre of 1989, is aimed at preparing the ground for a summit meeting between Presidents Bill Clinton and Jiang Zemin, scheduled for this year.

It takes place amid allegations that China sought to influence US policy by making donations to the Democratic party for the presidential election. China has denied the allegations and accused Taiwan of spreading rumours.

In an unconfirmed report, The United Daily News of Taiwan quoted military intelligence sources as saying China planned manoeuvres in coastal Fujian, Guangdong and Zhejiang provinces in April.

The report brought echoes of the loss of confidence wrought hy last year's missile tests in the Taiwan Strait but Fujian government officials said they were unaware of any plans.

China periodically holds "war games" on its southern coast adjacent to Taiwan to remind the Taiwanese of the risks of defying mainland reunification calls. China regards Taiwan as a renegade province and has not ruled out force to secure its return.

World stocks ....Page 34

The Dalai Lama, on his first visit to Taiwan, sought to allay Beijing's suspicions that he was making common cause with the Taiwanese leadership against China.

"I always consider that a close understanding between Tibet and the Chinese is extremely important," the Dalai Lama said. "This visit can be very helpful to remove the feeling of distance between one another."

Mr Gore said in Tokyo on his way to Beijing he would raise the political funding issue with China "in an appropriate way and in the proper context", but added "this is not what this trip is about".

People's Daily, the Communist party newspaper, said: "The Chinese government is not involved in the so-called political contributions' scandal in the slightest way and is entirely free of guilt."

William Dawkins in Tokyo adds: Mr Gore completed the first stage of his three-nation Asian tour yesterday by swearing continued support for the US-Japan security alliance.

Ending his two-day visit to Japan, Mr Gore, said: "This would be the very worst time to have some reduction in the level of American forces here." The continuing presence of 100,000 US troops in south-east Asia – of which nearly half are in Japan – was essential for regional security, he said.

His remark gives moral support to tha Tokyo government as it begins difficult negotiations with local authorities in Okinawa, the southern Japanese island, to renew leases for the largest US base in south-east Asia. The leases are due to expire in mid-May. There is strong local opposition to renewal.

Vice-President Gore in a US flight jacket speaks to servicemen and their families at Yokota air base west of Tokyo Picture: Reuter

Australian Senate overturns voluntary euthanasia law

By Nikki Tait in Sydney

The world's first legislation to give explicit permission for voluntary euthanasia in Australia's sparsely populated Northern Territory was overturned narrowly yesterday.

The Australian Senate, the federal parliament's upper house, voted 38 to 33 to reverse the law, which came into force last year. The decision came after almost a week of debate, at the end of which senators had a "conscience" vote – with no requirement to vote along party lines.

Euthanasia is possible under the legal systems of some countries, but the Northern Territory bill – passed in 1995 – was the first to allow assisted suicide, and set out circumstances in which it could be carried out.

To qualify, patients must be in pain, over 18, be of sound mind and certified as terminally ill and beyond medical help hy two doctors, each with five years' medical experience and one with a diploma in psychiatry. Four terminally ill people have used the law to end their lives.

The final debate took place before a packed gallery, which included Dr Philip Nitschke, who has had a leading role in pioneering the euthanasia law, and Ms Margaret Tighe, head of the Right to Life organisation. Supporters of both sides kept vigil outside Canberra's Parliament House.

Inside, Senator Jocelyn Newman – who is minister for social security – came close to tears when she recalled her personal battle against cancer.

Dr Nitschke asked that the bill not be signed into law by Australia's governor-general until two further patients who have met the law's requirements have died, hut an amendment to that effect was voted down.

The issue has called into question whether the federal government should override territory laws in "non-critical" circumstances. Australia's two territories have smaller populations and lesser powers than the states, whose laws cannot be superseded by tha federal parliament.

Mr Shane Stone, the Northern Territory's chief minister, has argued that federal powers to set aside territory laws are only expected to be used in times of "civil unrest, bloodshed, almost civil war".

The private member's bill to overturn tha territory's assisted suicida law has already passed through the House of Representatives, federal parliament's lower house, by a much larger majority.

However, opinion polls consistently indicate that about 75 per cent of Australians favour giving terminally-ill patients the right to end their lives.

Public opinion is expected to lead to pressure on one of the states – possibly Victoria – to enact a law similar to the Northern Territory's.

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NEWS: EUROPE

Flynn calls for reform of EU funds

By Neil Buckley in Brussels

The European Union's structural funds, which direct aid to poorer areas, should be radically simplified, and member states given a bigger role in implementing them, according to Mr Padraig Flynn, social affairs commissioner.

He told the Centre for European Policy Studies yesterday that the Ecu38bn ($44bn) annual funds were over-complex, inefficient and spread across too many EU objectives and initiatives.

His comments are one of the early shots in what may be a long and controversial debate over reform of the funds due to be completed by 1999.

They were seen partly as a defence of the European Social Fund, which supports worker training and for which Mr Flynn is directly responsible. But aides to Mrs Monika Wulf-Mathies, commissioner with overall responsibility for structural funds, said the broad thrust of his remarks accorded with her views on reform.

Mrs Wulf-Mathies has said the funds should be targeted more rigorously, to a smaller proportion of the EU population. She is preparing a paper on regional aid to be presented in July.

"The existence of four funds, seven objectives, 14 [EU] initiatives and a multiplicity of operational programmes. . . does create undue complexity and absorbs a disproportionate amount of administrative effort," Mr Flynn said.

He rejected the idea of amalgamating the funds, which comprise the social fund and European regional development fund, together with agricultural and fisheries schemes. Instead, the seven objectives supported by the funds, which include aiding underdeveloped regions, combating long-term unemployment and helping workers adapt to technological change, should be simplified into two:

- economic and social development of poorer or industrially declining regions, and
- EU-wide development of human resources, including training and education

At the same time, the long and complex list of EU initiatives supported by the funds should be reduced to perhaps three priority themes.

He also suggested that the Commission should agree an overall policy framework with each EU state, and then give member states more flexibility in the choice and implementation of programmes.

German bid to end Turkey rift

By John Barham in Ankara

Mr Klaus Kinkel, Germany's foreign minister, arrives this evening in Turkey for a difficult two-day visit during which he will try to patch up a rift in the two countries' special relationship.

Three weeks ago, Turkey received an unequivocal rejection of its long-standing attempt to join the European Union from a meeting of Christian Democrat leaders attended by Chancellor Helmut Kohl. The Christian Democrats found Turkey "not acceptable" for membership of a "European project".

The rebuff shocked Turkey for its bluntness and because Germany, seen by many Turks as their best friend in Europe, participated in what the local media called a "Christian alliance against Turkey".

Turkey formed a customs union with the European Union last year and full membership is a central policy objective. The Turkish foreign ministry said "it would be a historical mistake to build an iron curtain in the middle of Europe [based on] differences in civilisation. Turkey has no shortcomings in this respect. On the contrary, it can be seen that its superiority [is] overwhelming."

Subsequently, EU foreign ministers reassured Ankara its attempt to join the union would be treated in the same way as other central and eastern European countries.

Mr Kinkel emphasised that the Christian Democrats' views were not government policy. "Turkey belongs to Europe" and Bonn's views on Turkey's right to membership had not changed, he declared.

Mr Kinkel said in an interview with Focus magazine in Germany yesterday that Turkey was "still on the tracks towards Europe". Accusations of racism thrown at Germany by Turkish media were unhelpful, he added.

But he warned that the country would not fulfil criteria for joining the European Union in the "foreseeable" future, citing as reasons Turkey's record on human rights, unresolved Kurdish issues, and its precarious relations with Greece.

Despite the awkward relations between the two governments, Germany is the European country Turks feel they know best. Some 2m Turks live in Germany, the country's biggest immigrant group.

Yet there are occasional outbursts in the Turkish media alleging German racism, anti-Moslem prejudice and support for Kurdish exile groups accused of links to the Kurdistan Workers party (PKK), which is fighting a guerrilla war in south-east Turkey.

Germany has in the past suspended arms transfers to Turkey, citing human rights violations in the battle against the PKK.

Germany is the only country in the EU with which Turkey normally runs a trade surplus. It is the first and so far only European country to invite Mr Necmettin Erbakan, Turkey's Islamist prime minister, for an official visit.

Mr Erbakan speaks fluent German and took a doctorate at Aachen Technical University. He even claims to have helped design tank engines for the German army.

Italy braces itself for welfare system overhaul

A married woman with no more than 19 years work in tba Italian public sector can retire on almost 80 per cent of final salary. A jobless married woman on the other hand has access to no unemployment benefit or family allowance.

These anomalies are symptomatic of a welfare system long in need of overhaul. But the day of reckoning is fast approaching as Italy is obliged to put its public accounts in order to join the European single currency. Social security, health and pensions spending is the one area where significant structural cuts can be made.

"Italy has missed out on the changes that have occurred over the years in much of Europe," says Professor Paolo Onofri, economic adviser to the premier and author of a recent government-commissioned report on ways to change the Italian welfare state.

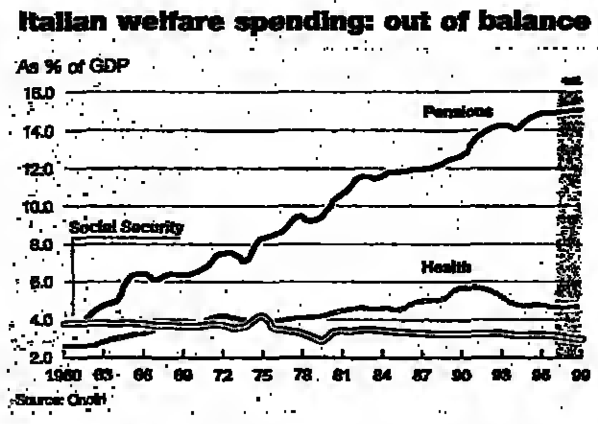
"The current system is unable to adapt: it's full of anomalies and imbalances with areas of hyper-protection and under-protection."

The report specifically addresses the compatibility of current expenditure with the need to bring the budget deficit down on a sustained basis to well below 3 per cent of GDP in line with the criteria of the Maastricht treaty.

The report projects health spending at current rates would increase over the next 20 years by 0.5 percentage points of GDP, while pensions would grow by 1.5 percentage points. It also assumes no government would wish to cover these increases by a further rise in fiscal pressure.

"Our report's conclusions are pretty obvious – that without correction we will miss the target," Prof Onofri says. But a senior government officials points out: "We need to state the obvious in a sober document to sensitise public opinion about the sacrifices ahead."

Italian welfare spending: out of balance



In global terms Italy's welfare state accounts for only 23 per cent of GDP compared to an EU average of 25 per cent. This allows Mr Sergio Cofferati, leader of the CGIL, the largest of the three main trades union confederations, to assert with great vigour: "It is unacceptable to reduce the level of welfare spending as our country has one of the lowest levels in the EU."

But as the Onofri report points out, the structure is wholly unbalanced: 61.5 per cent of spending goes on pensions against an EU average of 45.3 per cent. In contrast expenditure on unemployment benefit, maternity benefits, housing and family allowances amounts to only 18.4 per cent compared with the EU norm of 31.9 per cent. Italy for instance has no unemployment benefit, merely a system of paying for people to be temporarily laid off or be given redundancy payments.

The unions recognise these imbalances. But Mr Cofferati warns: "If we are talking of reform then we must look at the system as a whole and not just pensions. Society is changing: some groups are overprotected but others are excluded and need attention like ageing single people or first-time job-seekers leaving school."

Unions think efficiency savings can be made but say these moneys should be redirected to other areas of genuine need. But Prof Onofri is adamant that health and pensions expenditure be neutralised and reduced while the rhythm of social security spending is slowed. The government must start by separating in principle the funding of social security (through taxes) and pensions (through contributions). The annual deficit of the pay-as-you-go state pensions scheme is presently funded by the treasury.

Adjustments to the pensions system will have most impact on the public accounts, and the report says the gradualist approach of the 1995 Dini government reforms must be accelerated.

The anomalies must also be ironed out and the public and private sector schemes be brought into line more quickly. On the health service, the report emphasises the need for efficient management and greater accountability of the regional authorities in an environment of more individual choice both for public and private health.

None of this is very new. The innovative aspect of the report lies in the recommendations on employment and family benefits. Prof Onofri believes the welfare system cannot be changed without a simultaneous move to promote a more flexible labour market with a better trained workforce. He argues Italy has to move from the passive system of hand-outs for the jobless to emphasising active incentives to individuals.

Discussion of the report will start in earnest after Easter when the mini-budget is out of the way. The government will then have to decide whether the shake-up of the welfare state begins this year or is incorporated into next year's budget.

To avoid delay and convince the EU of Italy's commitment to Emu, the treasury wants to bring introduction of the 1998 budget forward to this summer.

The toughest task will be to persuade the hardliners in Reconstructed Communism (RC) to back the seemingly inevitable cuts in pensions.

Until their position is clear the unions are unlikely to reveal their hand. Bnt already 100,000 public sector employees (over 75,000 of them teachers) have applied for early retirement in tha hope of beating imminent reform of their generous pensions.

Robert Graham

Move to free funds for south

Italy's centre-left government has set in motion the mechanisms to unblock more than L10,000bn ($6bn) in soft loans for depressed areas in the south as part of a series of measures to stimulate employment, writes Robert Graham in Rome.

The release of the funds follows a cabinet meeting last Friday devoted largely to approving a package to cut unemployment. An average 12.2 per cent of the active population is out of work nationally. In the south it is more than double that figure. The need to accelerate moves to create jobs was underlined by e big union protest rally in Rome at the weekend.

More than 150,000 people took part, among them Mr Massimo D'Alema, head of the Party of the Democratic Left, dominant partner in the government.

A sizeable part of the measures is aimed et reviving the depressed construction industry. There is a sharp cut in bureaucratic procedures for building licences; e big easing of curbs on conversions/restorations in historic city centres; plus specific allocations of L400bn for southern airports, L1,000bn for school buildings, some L4,000bn for the three main arterial road systems in the south, and L1,200bn in loans for the enlargement of the Bologna-Florence motorway.

The government has also agreed to extend the system of temporary ley-off payments by a further three months.

The duration of "socially usefnl" public works employment will also be prolonged in the south. Fiscal incentives will be available for those setting up companies in the agro-industrial sector.

EUROPEAN NEWS DIGEST

First Dutch BSE case

Large-scale preventive slaughtering of cows and pigs has failed to prevent the first case of BSE, or mad cow disease, and another case of swine fever in the Netherlands.

The farm ministry said yesterday that all close relatives of the contaminated cow had been killed at the weekend along with all 110 other cows at the farm in Wilp, in the east of the Netherlands. They will be examined to see whether they too carried BSE. The ministry also reported the 52nd case of swine fever, which does not harm humans but has spread rapidly in the southern provinces. Exports of live pigs and pig sperm have been banned since last week.

With 4m cows and 14.2m pigs, the Netherlands exports large quantities of meat products. Pig and pork exports were worth Fl 5.1bn ($2.7bn) last year; cows and beef accounted for Fl 425m. Last year, neighbouring countries accused the Netherlands of overreacting when it ordered 64,000 British calves destroyed following the spread of BSE in the UK. It has ordered the destruction of 90,000 pigs.

Officials are focusing their current investigation on possible contamination through tainted animal fodder, the main cause of contamination in Britain's BSE crisis. Imports of feed containing processed animal meat have been banned since 1990. but Dutch newspaper reports suggest illicit deliveries from Switzerland may have been made. *Sander Thoenes, Amsterdam*

Russian opposition wins polls

Communists and nationalists swept to victory in three elections in Russia at the weekend. The results were a sign of deep discontent in the provinces and a worrying message for the Kremlin.

Mr Vasily Starodubtsev, one of the leaders of a 1991 hardline coup against Mr Mikhail Gorbachev, won a gubernatorial contest comfortably in Tula, a heavily militarised region near Moscow.

Another Communist won e convincing victory in Amur, a depressed eastern region on the Chinese border, and Mr Dmitry Rogozin, an ally of ultra-nationalist Mr Alexander Lebed, was elected to parliament in a by-election in southern Russia.

Communists hailed the results as a signal that the nation was ready to rebel against the government's tough economic policies, which have dragged the standard of living down to the level of the late 1970s. However, the Kremlin's response was muted, the Russian leadership being preoccupied with a cabinet reshuffle.

The liberal Yabloko faction told the FT yesterday it had rejected an appeal by Mr Boris Nemtsov, a first deputy prime minister, to join the cabinet team. However, e spokesman said the party would work closely with him. *Chrystia Freeland, Moscow*

Leutwiler assails gold fund

The Swiss National Bank's plan to revalue part of its gold reserves to finance a SFr7bn ($4.8bn) foundation to help needy people has run into serious opposition.

Mr Fritz Leutwiler, a former head of the central bank, says the proposal is "badly thought out" and raises questions about the bank's independence. He is concerned that what has been regarded as one of the world's most independent central banks will come under pressure to use its gold reserves for other politically motivated projects.

Switzerland's three main political parties are united behind the bank's plan to set up a well-endowed foundation to head off international criticism of the country's role in helping finance the Nazi war effort.

Mr Leutwiler, who made his comments to the German language service of the Associated Press, is one of the country's most influential bankers. He has played an important role behind the scenes in persuading the big three Swiss banks to finance the bulk of e SFr265m private sector fund for Holocaust victims. He is understood to believe that this should have been enough to satisfy Switzerland's critics. *William Hall, Zurich*

French bank strike called

France's five banking unions yesterday called a one-day strike on April 4 in protest against the government's plans to change a 1937 regulation which restricts flexible working hours for the commercial banking sector.

They believe that a draft circulated last week and due to be approved by the cabinet in early April provides no concessions in exchange for a series of deregulations designed to extend working hours and create the possibility of bank branches opening six days a week.

The unions called the proposals "a provocation". They recently agreed to modifications to existing rules, but in exchange for assurances of job creation and reduced working hours. *Andrew Jack, Paris*

Emu 'cannot be delayed'

A senior official of the European Monetary Institute, the forerunner of the future European Central Bank, yesterday cast doubts on the legality of delaying the single currency. Speaking at a London conference, Mr Erwin Nierop, deputy legal counsel of the Emi, said "the legal answer is very clear. There is no possibility of postponement".

His views add weight to those of the European Commission, which also argues that the Maastricht treaty provides no legal backdoor for tha starting date to be changed.

The legal ramifications of a possible delay have given rise to an intense argument. Proponents say that the Maastricht treaty explicitly permits heads of government to set a date other than 1999, as long as this decision is taken before the end of this year.

Wolfgang Münchau, Economics Correspondent, London

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Prices for Trading on 25.03.97: Pool purchase price £/MWh	Final Prices for Trading on 22.03.97: Pool purchase price £/MWh	Pool selling price £/MWh
0030	14.43	11.71	11.71
0100	14.43	11.88	11.88
0130	14.43	11.87	11.87
0200	14.43	12.29	13.94
0230	14.43	12.29	13.94
0300	14.43	12.29	13.94
0330	14.43	12.29	13.94
0400	14.43	12.29	13.94
0430	11.88	11.88	11.88
0500	11.88	11.70	11.70
0530	13.96	11.70	11.70
0600	13.96	11.71	11.71
0630	13.96	11.71	11.71
0700	16.10	19.87	21.51
0730	22.50	33.09	34.74
0800	23.53	33.09	34.74
0830	23.53	20.75	22.40
0900	23.53	21.13	22.78
0930	26.78	24.30	26.95
1000	26.78	33.01	34.66
1030	26.78	33.01	34.66
1100	43.81	29.46	31.11
1130	48.81	29.46	31.11
1200	52.10	29.46	31.11
1230	52.10	29.46	31.11
1300	43.80	29.46	31.11
1330	26.78	21.13	22.77
1400	23.54	21.13	22.77
1430	23.53	21.13	22.77
1500	23.53	21.13	22.77
1530	23.28	21.13	22.77
1600	23.29	21.13	22.77
1630	23.54	21.13	22.78
1700	31.85	31.62	33.27
1730	31.85	31.64	33.30
1800	31.85	41.14	42.95
1830	31.94	50.76	52.68
1900	48.73	56.47	58.40
1930	57.47	50.40	52.21
2000	48.85	40.78	42.46
2030	31.85	30.34	31.99
2100	31.84	23.05	24.70
2130	23.53	20.64	22.28
2200	22.70	20.64	22.29
2230	19.40	12.70	14.35
2300	19.40	12.70	14.36
2330	11.87	11.86	11.88
2400	11.87	11.70	11.70

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.85/MWh becomes 1.685p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the base of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6768 between 8.30am and 5.15pm Monday to Friday.
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Russians ride roughshod over shareholders

By John Thornhill in Moscow

Russia's 100 biggast companies have "extremely serious problems of corporate governance" in spite of their ownership being widely dispersed since privatisation, according to a new study*.

It highlights how many companies have openly flouted shareholder rights by issuing free shares to insiders and blocking the appointment of outside directors. It criticises local stockbroking firms for talking up the stock market whila ignoring these concerns.

Based on a sample of 24, the study reports 17 per cent of companies illegally maintain their own shareholder register, while 44 per cent had bought back and resold their own shares to insiders rather than retiring them.

Russia's poor corporate governance regime has recently been highlighted by the struggle at Novolipetsk Metallurgical Kombinat, one of the country's biggest steel producers. A group of outside shareholders owning 40 per cent of the stock has been prevented from nominating directors to the board.

Mr Joseph Blasi, professor at Rutgers University in the US, who conducted the project, says: "The Novolipetsk situation is the norm. . . . Every one of the companies we studied is experiencing some kind of serious shareholder tension."

The study attacks stockbrokers for failing to explain to investors the potential pitfalls of the Russian market, which has risen by 60 per cent since the beginning of the year and has been portrayed as one of the world's most promising emerging markets. "Russia is not the kind of market where passive portfolio investment is going to work well," Mr Blasi argues. "The liquidity-driven market will yield to people who are more interested in the fundamentals."

The study suggests that, contrary to popular perception, ownership of Russia's biggest companies is widely dispersed among domestic and foreign shareholders.

Unlike Russia's small and medium-sized companies, which are overwhelmingly controlled by inside managers, the biggest companies tend to have several significant outside shareholders.

Private Russian investors on average own 39.1 per cent of the top 100; foreign investors 15.7 per cent. The state retains a 20 per cent shareholding on average while managers and employees speak for about 22 per cent.

The emergence of company suppliers and customers as significant shareholders – accounting for almost 15 per cent of share ownership – suggests some Russian companies conld develop along the lines of Japanese keiretsu.

**Research report stemming from "Kremlin Capitalism: Privatising the Russian Economy", Joseph Blasi, Maya Kroumova, Douglas Kruse. Cornell University Press. Ithaca. New York.*

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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Europe since the Rome Treaty – From Six to 15; from Economic Community to Union

Signing of the Treaty of Rome

1957: Treaty of Rome establishing the European Economic Community (EEC) and the European Atomic Community. Members: Belgium, France, Germany, Italy, Luxembourg, Netherlands

1961: UK applies for membership. Denmark, Ireland and Norway also apply

Charles De Gaulle

1963,67: French President De Gaulle vetoes British membership

1965: De Gaulle boycotts EEC meetings with an 'empty chair' policy

Edward Heath
UK prime minister

1972: Signing of the Accession Treaty for UK, Denmark, Ireland, Norway (which rejects it in a referendum the same year)

The European Parliament in Strasbourg

1979: First direct elections to the European Parliament. Launch of European Monetary System linking currencies

1981: Greece joins officially

Felipe Gonzalez
Spanish prime minister

1986: Spain and Portugal join officially. Single European Act signed to set up the single market and streamline decision-making

Jacques Delors
Commission president, 1985-95

1991: Maastricht Treaty on European Union and economic and monetary union agreed

1993: Single European Market established

Jacques Santer
Current Commission president

1995: Austria, Finland and Sweden become members

1996: Inter-governmental Conference to review the Maastricht Treaty and prepare for further enlargement

The euro note

1999: European monetary union?

Forty and fatter but it's still worth celebrating

The European Union turns 40 today, an occasion for celebration tinged with introspection and self-doubt.

Once described as a supermarket built on a graveyard, the EU has achieved peace and prosperity in western Europe on a scale which would impress the founding fathers who gathered on March 25 1957 to sign the Treaty of Rome.

A customs union, a common external tariff, the European Monetary System, an internal market of 370m consumers, and an expansion in membership from the original aix to the present 15: these are among the successes of the past 40 years.

Today, the EU is still a club seen as worth joining.

Ten former communist countries from central and eastern Europe, Cyprus, Turkey, even Russia, as President Boris Yeltsin announced last weekend, are queuing up to join the Union.

Yet the EU risks becoming a victim of its own success. The 1991 Maastricht treaty, with its fixed timetable for economic and monetary union and its vaguer promise of political union, left ordinary citizens uneasy abont deeper European integration.

Maastricht meant "Europe" was moving into the most sensitive areas of national sovereignty: currencies, immigration controls, and defence pollcy. Fairly or unfairly, the treaty has become a by-word for remote but intrusive decision-making in Brussels.

The sense of insecurity and dislocation among ordinary EU citizens has been exacerbated by mass unemployment.

Today, with 18.5m people out of work – the combined population of Denmark, Finland, and Sweden – the EU finds itself tha target of popular frustration.

The fragile state of public opinion in Europe overshadows the Maastricht II constitutional conference (IGC) which was originally seen five years ago as a chance to plug the gaps in Maastricht I.

When EU foreign ministers gather in Rome today to review progress in the conference, the limits of integratioo will be obvious. Closer co-operation in justice and bome affairs, some extension in majority voting, a commitment to adjust the siza of the European Commission, and some modest reforms to improve the efficiency of foreign policy-making hardly amount to a great leap forward.

Maastricht II is scheduled to be wrapped up at a summit in June in Amsterdam. Tellingly, IGC negotiators refuse to spell out whether they will meet their earlier pledge to create a Union fit to double in size over the next 10 years.

Talk of Maastricht III hangs in the air.

The real test for the EU is to manage the twin challenge of monetary union and enlargement to eastern Europe.

Yet both lack deep-rooted support among tbe public: both require a cultural revolution in institutions and decision-making.

First, the single currency. EU leaders have turned the launch date of Emu on January 1 1999 into a test of their own political virility, often at the expense of rational debate.

Last week, Mr Yves-Thibault de Silguy, tbe French commissioner for monetary affairs, attacked the idea of a delay as "economic suicide."

Mr Jacques Santer, president of the Commission, declared "war on the pessimists", echoing similar noises by Chancellor Helmut Kohl of Germany.

Increasingly, it is hinted that a delay in Emu could lead to a delay in the opening of accession negotiations early oext year with some or all of the 10 central and eastern European countries: the Czech Republic, Hungary, Poland, Slovenia, Slovakia, the Baltic states, Bulgaria and Romania.

A second barrier is that eastern enlargement will require reforms in the common agricultural policy and EU structural funds which form the basic political contract between the farmers, the poorer regions, and national governmeots.

For better or worse, therefore, the future course of the Union appears to rest on tbe single currency project.

If Emu supporters are correct, monetary union will create a zone of stability around France and Germany which should protect the single market.

Emu should reinforce the trend toward stable, low-inflation economies with lower interest rates, higher investment and ultimately higher employment.

But the risks are obvious. A continuation of the low-growth and high unemployment of the 1990s in the post-Emu world would deprive the Union of its strongest claim to the loyalty of the people: that closer integration has unequivocally served their self-interest.

Lionel Barber

How euro may fit in with the Fund

Europe's single currency will need different relationship with IMF, writes **Robert Chote**

Preparing for Emu

The International Monetary Fund is busy expanding its headquarters on Washington's 19th Street. But if some of the more zealous and far-sighted advocates of a European single currency have their way, then the global economic watchdog could be forced to abandon its home in the US and sail across the Atlantic.

Article XIII, Section 1, of the IMF's articles of agreement states that "the principal office of the Fund shall be located in the territory of the member having the largest quota". Quotas are the subscriptions which IMF members pay the organisation and which determine their voting power and access to its financial help.

The size of the US economy means that it has by far the largest quota at $36bn, well in excess of Germany's $11bn and France'a $10bn. But some European policymakers believe the members of a single currency area should pool their representation at the Fund. If enough countries sign up, that might be enough to give the euro area a bigger quota than the US. In that case lt would be time to call in the removers.

All but the most ardent Euro-enthusiasts regard this as a highly unlikely scenario until Europe supplementa monetary union with political union. But it highlights an area of preparation for Emu to which policymakers have only just begun to turn their minds: how will a single currency affect Europe's participation in the international financial institutions?

Mr Philippe Maystadt, Belgium's deputy prime minister and head of the IMF's principal ministerial committee, addressed this question at an IMF symposium in Washington last week.

"I believe that Emu members will remain individual members of the Fund, at least during a transition perlod," he said.

The Fund's articles made it clear that membership had to be available to countries individually and amending this rule would be complicated and time-consuming. Mr Maystadt also doubted there would be the necessary unanimous agreement among Emu members themselves to pool quotas.

> Policymakers have only just begun to turn their minds to the problem of how Emu will affect Europe's participation in the international financial institutions

But sticking to the status quo will make it more difficult for the Fund to scrutinise economic policies, which it does through regular Article IV consultations with its members. National governments will no longer have responsibility for interest rate or exchange rate policies, which will be handled by the European Centrai Bank and the finance ministers' council.

Mr Maystadt argued that the Fund should carry out regular consultations with the central bank on monetary policy, with staff drawing up a report that would then be discussed at an IMF board meeting at which the central bank would be represented.

Exercising surveillance over the euro area's exchange rate policy is more difficult, however, because the central bank and Ecofin council are responsible jointly. Mr Maystadt suggested consultations could take place via the putative economic and financial committee, which will succeed the secretive EU monetary committee. The possiblity of an IMF observer attending monetary committea meetings haa been raised already on several occasions.

Mr Jacqnes Polak, a former senior IMF official, argues that experience with trade policy – which is less important to the Fund than interest and exchange rate policy – demonstrates the need to get the surveillance arrangements right.

"If the Fund favoured a change in the trade pollcies of an individual member, it was often advised in bilateral consultations that it was not up to the member [whether it agreed with the Fund's view or not] to deviate from a policy decided in Brussels; and the Fund had no recognised standing to argue its case before the Community," he said.

Selected IMF Quotas*

Countries	$bn
US	36.5
Germany	11.4
France	10.2
Netherlands	4.8
Belgium	4.3
Austria	1.6
Ireland	0.7
Finland	1.2
Sweden	2.2
Denmark	1.5
Spain	2.7
Italy	6.3
Portugal	0.8
UK	10.2
Greece	0.8

*A combined euro-area quota would be smaller than the sum of participants' quotas.
Source: IMF

Surveillance is not the only area in which Emu will complicate Europe's relations with the IMF.

Another is when Emu members could draw on the Fund's financial assistance. The Fund is supposed to offer help in cases of "balance of payments need", but this is difficult to define in a single currency area. And if the euro area as a whole were to be offered financial help, with whom would the required policy conditions be negotiated?

Emn also affects special drawing rights, the quasi-currency which the Fund creates by offering overdraft facilities to central banks and which also provides a unit of account for IMF activities through its valuation as a weighted basket of five currencies.

Since 1980 the SDR basket has included the US dollar, the D-Mark, the yen, tbe French franc and the pound. Emu would mean the disappearance of two or three of these, requiring the basket to be reconstituted and reweighted.

These issnes range from the important to the arcane. Similar questions arise regarding the euro area's relations with the numerous other groups that make up the architecture of the international financial system, so there is much detailed work that remains to be done.

Stark truth about software in run-up to single currency

By Andrew Fisher in Frankfurt

SAP, the big German business software company, has a stark way of drawing attention to the need to prepare for the European single currency: "Scared or prepared" it says at the top of its Internet page on the euro. "Be proactive," it continues, "develop a checklist and discuss the impacts with your business partners."

The company goes on to say it will have special software available by the end of this year to help customers change over to the new currency. This will tide them over the period between the start of European monetary union in 1999 – if it begins on time – and the actual introduction of the new notes and coins around the start of 2002.

This transitional software will enable customers to use the euro as their main, or house, currency, when they wish, but in a way that preserves details of original transactions in whatever currencies these were carried out.

Thus, a company will still be able to draw up its tax returns in D-Marks even if it is working mainly in euros. Auditors and other experts will be able to work back to the national currencies used in payments, purchases and other dealings.

Mr Henning Kagermann, a director of SAP, says the business software aspect of Emu is a project like any other – not too different from a big and complex software installation in the aerospace or defence industry. The change in German postal codes a few years ago was just as challenging, he says. So was the implementation of a special European Union guideline on new accountancy rules.

Even so, the shedding of national currencies for the euro will have "profound implications" for the way companies do business, SAP says. To gain a lead over their competitors, they should take a close look at what needs to be done in purchasing, administration, logistics, sales, controlling, accounting and finance, data processing and personnel.

"The big companies will obviously make sure they are well prepared," Mr Kagermann says, referring to international concerns such as Siemens and Daimler-Benz. They will also put pressure on their suppliers to be ready in time. "Our customers are all aware that they have to prepare for the euro," says Mr Kagermann. "Most of them believe that it will come, whether they are enthusiastic or not."

Ironically, in view of the possibility that the European Union might eventually be extended eastwards, SAP says it has learnt valuable lessons from its experience in both Poland and Ukraine – not that the currency reforms in those countries were comparable in scale with Emu. But the way in which changes in these countries' currency valuations were translated into customer software can also be applied to the switch from national currencies to the euro.

NEWS: INTERNATIONAL

Yemeni party to boycott elections

By Robin Allen in Aden

Yemen's main opposition group, the Yemen Socialist party (YSP), is to boycott general elections set for April 27 because it says President Ali Abdullah Saleh's government has failed to attend to economic and political priorities in the southern part of the country.

About half of Yemen's population, variously estimated at between 17m-20m, is due to vote to elect 301 members of the national assembly. More than 80 per cent of them are northerners. Elections are held every four years.

The YSP, the former ruling party of South Yemen before unity with the north in May 1990, was a member of the three-party governing coalition with the dominant General People's Congress (GPC) and the Islamist Yemeni Reform Group (Islah) until the 1994 civil war. Then, southern Yemen tried to secede. After the southern defeat, the YSP party was ejected from the cabinet.

Its boycott of next month's elections will mean that up to 80 per cent of the southern Yemeni electorate of some 1.5m will abstain. This leaves the way clear for the northern-led GPC and Islah to consolidate their hold at all levels of state administration in the south, "confirming a situation which already exists," according to an Aden businessman.

The GPC is expected to win more than 200 seats, with the balance going to Islah and independent tribal members.

Mr Saleh Bathawab, a member of the GPC's politburo in Aden, believes that a GPC majority "will end the existing tug-of-war between rival decision-makers". A clear GPC victory would "narrow the base of decision-makers and make it easier to get things done in the south".

Africa 'must catch bandwagon'

Michael Holman on Unido's calls for more efforts to attract foreign investment

Sub-Saharan African governments must accelerate the pace of economic reform or risk missing "the globalisation bandwagon", the United Nations Industrial Development Organisation (Unido) has warned.

In one its most critical appraisals of the African economy, the organisation urges African leaders to make greater efforts to attract foreign investment, which it sees as essential to the region's recovery.

It also criticises aspects of the World Bank's structural adjustment programme, however, arguing that cuts in public spending have contributed to the deterioration of Africa's infrastructure, one of the factors which deter investors.

The frank analysis, contained in the Africa chapter of a report* on the implications of the globalisation of industry for developing countries, will be seen as evidence of Unido's determination to show its critics that it has acquired a new cutting edge since the appointment of Mr Mauricio de Maria y Campos as its director-general in 1993.

The region has "excellent potential" for investment and growth in agriculture, mining, tourism, and agro-industry, says Unido, but adds that "formidable challenges" must first be overcome. These include poor management, inadequate levels of savings, a weak infrastructure, skills shortages, low productivity, high transport costs, and strong competition from other developing regions.

"Industrial development in Africa will take off only when governments succeed in creating the enabling environment necessary to boost domestic investment confidence and attract foreign participation in the form of direct investment and non-equity relationships."

This requires progress on several fronts simultaneously, says Unido: "Policy-makers must tackle trade, fiscal policy, law and order, transparency and accountability, infrastructure, human resource development, privatisation, agricultural development and industry strategy."

High and sustained levels of efficient private sector investment are essential, continues the report. More than 90 per cent of net inflows to sub-Saharan Africa (excluding South Africa) come from official sources, mostly on concessional terms, says Unido. Official development aid totalled $16.9bn in 1995, up from $15.4bn in 1994.

But in the first half of the 1990s the region attracted only $3.7bn of foreign direct investment (FDI) – little more than three per cent of the total FDI flows to all developing countries: "The region's failure to attract sizeable FDI inflows has contributed significantly to its poor growth record."

The report also expresses concern about declining domestic investment.

In the 1970s, sub-Saharan Africa invested almost 26 per cent of GDP – higher than east Asia. But by the first half of the 1990s, this had fallen to 16.3 per cent – partly in response to adjustment programme pressure to cut public sector deficits.

It has been estimated that the African region must invest 13 per cent of GDP merely to maintain its existing capital stock, but in the first half of the 1990s, net investment was barely positive at 3.5 per cent of GDP.

Past policy failures have cost Africa dear, says Unido, noting that sub-Saharan Africa's share in global manufacturing has fallen from 0.6 per cent in 1970 to 0.3 per cent in 1995.

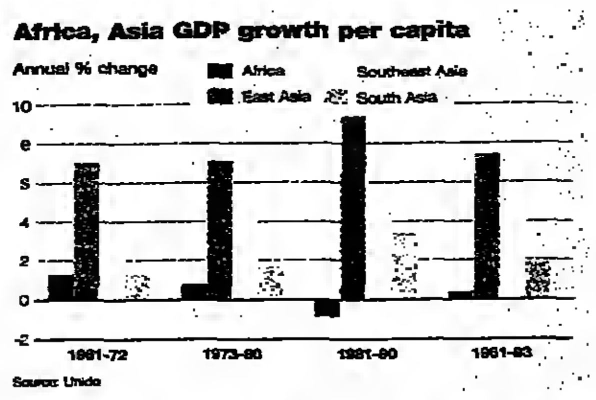
The reports also cites a World Bank study that calculates that the fall in Sub-Saharan Africa's share of global exports from 3.1 per cent in the mid-1950s to 1.2 per cent in 1990 lost the region around $65bn at 1990 prices.

Protectionist policies by developed countries are not to blame: "Pre-Uruguay Round tariffs facing African exporters to the European Union, the US and Japan averaged almost 20 percentage points lower than those facing the Asian countries when they embarked on their highly successful export-led growth strategy."

The report points out that African exporters have lost global market share to Malaysia, Thailand and Indonesia even in products in which they have a comparative advantage, such as cocoa, coffee, rubber, tin and vegetable oils.

The results of reforms introduced over the past 15 years have been "disappointing" says the report, blaming "weak implementation, partly attributable to inadequate institutional capacity", as well as the region's "depleted and run-down infrastructure."

** The Globalisation of Industry: Implications for Developing Countries Beyond 2000, Unido, Vienna. Tel (43 1) 21131O, Fax 232156*



US and France press for ceasefire in Zaire

Zairean troops wait outside Kisangani barracks yesterday to surrender to rebels Reuter

By David Buchan in Paris

French and US diplomats yesterday pressed some 20 African countries which will attend tomorrow's Organisation of African Unity (OAU) summit on the Zaire conflict to push for an immediate ceasefire and political negotiations between President Mobutu and the rebels.

The French foreign ministry said the joint lobbying of the members of the OAU conflict resolution committee, who will meet in the Togo capital of Lomé, was designed to "draw their attention to the importance we attach to the cessation of hostilities and the start of negotiations".

US diplomats confirmed the common approach with France and stressed the main aim of the Lomé meeting was to get the Kinshasa government to make a convincing commitment to political dialogue.

France and the US had often seemed on different sides earlier in the Zairean conflict, with Paris still seeing some role for President Mobutu, whose rule Washington regarded as effectively over.

But France has recently played down its call for humanitarian intervention that might have had the effect of checking the rebels in eastern Zaire, while the US has itself come to share France's opinion that no quick military solution is possible in Zaire.

Mr Jacques Godfrain, the co-operation minister, met leaders of some 15 African countries who attended yesterday's funeral in Paris of Jacques Foccart, African adviser to successive Gaullist presidents.

INTERNATIONAL NEWS DIGEST

Shell staff held in Nigeria

The Shell oil company said yesterday that 126 staff and contractors, all Nigerians, were being held at oil installations overrun at the weekend by villagers involved in a dispute with a Niger delta local government.

Shell, often the target of environmental protests in Nigeria, said it had passed on a list of demands to the Delta State government but had not been asked to mediate and had not requested government help to remove the protesters. Villagers agreed to release six of the detained staff who were injured in the attack.

Six pumping stations in the region were occupied on Saturday by community groups unhappy with the relocation of a local government headquarters. The occupation forced Shell to cut crude oil production by about 100,000 barrels per day (bpd), or 5 per cent of total Nigerian production, but exports were not affected.

World oil prices yesterday were unmoved by the news of reduced Nigerian production, but Shell Transport and Trading shares fell more than 2 per cent. *Reuter, London*

Market report, Page 24

Angola peace hopes raised

Mr Kofi Annan, UN secretary general, said yesterday that "peace is within sight" in Angola after Mr Jonas Savimbi, the former rebel leader, said he would fulfil promises to create a new government.

Mr Savimbi pledged to send officials of his Unita movement to the Angolan capital of Luanda to set a date to inaugurate a power-sharing government, the final stage in a peace process launched in 1994.

Mr Savimbi said he would not travel to Luanda for the installation of the new government because he still had to iron out "some small problems" with President José Eduardo dos Santos. *AP, Bailundo, Angola*

Iraq food prices tumble

Prices of basic food fell sharply in Iraq and the exchange rate of the dinar improved yesterday as more trucks carrying commodities arrived from Turkey and others were reported on the way from Jordan.

The shipments are a result of the UN oil-for-food deal signed in December in a limited easing of international sanctions imposed on Iraq for its 1990 invasion of Kuwait.

The food is not expected to be distributed for weeks under the UN programme, but traders in the main Baghdad markets said the arrival of the first shipments, mainly lentils and cooking oil, was already affecting prices. Meat was sold yesterday for ID 1,500 ($1.50) per kilo, down from 2,250 dinars the previous day.

The Iraqi dinar, meanwhile, increased to 1,000 against the US dollar, its strongest rate for eight months. The dinar traded for as much 1,500 to the dollar early this month before the food arrivals. *AP, Baghdad*

Ariane test flight delayed

The second test flight of the new generation Ariane-5 rocket, whose maiden flight blew up on lift-off last summer, has been delayed until at least September, the European Space Agency (ESA) said yesterday. The flight had been scheduled to take place before July, after being put off following the explosion on June 4 last year at Kourou in French Guiana. The explosion was blamed on a failure of its computerised control system. *AFP, Paris*

NEWS: WORLD TRADE

Pretoria promises to continue talks on EU trade package including fish and farming

Spain lifts veto on S Africa joining Lomé

By Neil Buckley and Agencies in Brussels

Spain yesterday lifted its block on South Africa's partial membership of the Lomé Convention, clearing the way for South African access to the forum linking the European Union with developing African, Caribbean and Pacific (ACP) countries.

At a meeting of EU foreign ministers in Brussels, Mr Abel Matutes, Spain's foreign minister, removed a veto imposed last month on South Africa's entry into Lomé pending progress in talks on allowing EU trawlers access to South African waters.

Although those negotiations have made little progress, Mr Matutes said Spain had decided not to hold up South Africa's entry because of its strategic importance for the development of the continent.

South Africa had also promised to continue negotiations on a broader trade package, including the fishing pact as well as agricultural and wine exports.

South Africa could now join Lomé at the biennial meeting between the EU and ACP countries in Luxembourg on April 24-25.

Failure to join by then could have left South Africa waiting until the fourth convention had been ratified by all 15 EU and 70 ACP signatories, which could take two years.

"Taking into account that we are arriving at the deadline to take a decision concerning Lomé, Spain will not force the situation and will not put its veto against South Africa in this very important issue," Mr Matutes said.

South Africa's partial access to Lomé will give it access to preferential loans from the European Development Fund, and the right to take part in political decision-making among the Lomé Convention countries.

It was particularly keen to be included in consultations on the future of the convention, since the European Commission and ACP countries are discussing what should replace the current agreement when it expires in 2000.

Pretoria originally pressed for full Lomé membership, but has been granted only partial membership on the grounds that its economy is too developed to benefit from the trade and aid provisions of the accord.

In addition to partial Lomé membership, the EU has proposed a bilateral trade pact between the two sides leading eventually to the creation of a free trade area.

Pretoria rejected initial terms for a free trade area offered by the EU, saying it would harm South African agriculture and undermine its trade relations with neighbouring countries.

Ontario in drive for investment in car components

By John Griffiths

Ontario has launched a $C50m (US$36m) drive to win inward investment, mainly in automotive components, to support rising vehicle production in the Canadian industrial province.

The programme, targeting the US, UK, Germany and Japan, coincides with $C2bn investments by Toyota and Chrysler to expand vehicle production in the province.

Ontario produces 2.5m cars and light trucks a year, second only to the adjoining US state of Michigan in North American vehicle production. A team led by economic development and trade minister Mr William Saunderson is seeking to persuade suppliers to Toyota, in particular, to locate in the province to supply a new sports coupé in which Toyota is investing $C500m.

The investment drive, during which the Canadian group has been meeting dozens of suppliers in the four countries, follows re-election of a Conservative provincial government in mid-1995 and the rolling back of labour and other perceived 'anti-business' legislation. The legislation had been responsible for Ontario "dropping off the world's radar screens" as a suitable region for inward investment, Mr Saunderson says.

Canada's share of global investment has fallen from 11.3 per cent in 1980 to 4.6 per cent in 1994. Traditionally the recipient of about 50 per cent of inward investment to Canada, Ontario has been badly hit by the drop.

Despite this, components sales have still risen from C$4.8bn in 1981 to well over C$20bn now. Some 85-90 per cent of vehicles and components are exported to the US tariff-free under the 30-year-old Auto Pact between the two countries. Over the past six years, General Motors, Ford, Chrysler, Toyota and Honda have invested C$6bn in expanding and retooling their Ontario plants.

Mr Saunderson says 1,000 individual items of legislation inhibiting investment have been rolled back in the past 18 months and labour costs in the industry have fallen sharply to about $C35 (US$25.40) an hour, including social overheads. The investment drive is thus laying strong emphasis on wooing motor components producers out of Germany, where labour costs have reached the equivalent of $C85 an hour.

Gas pipelines, power and petrochemicals pass to private sector

Mexico sets out energy plans

By Daniel Dombey in Mexico City

Mexico is to grant four concessions to build and lease power stations, and will sell off minority stakes in its petrochemical industry by the end of the year. It also expects to award concessions for distribution and transport of natural gas at the rate of one a month.

Until recently Mexico's energy liberalisation programme was stalled by a mixture of political and technical problems. Only last year did it start to award concessions, although legal reforms opening up the electricity generation and natural gas sectors were pushed through in 1992 and early 1995, respectively.

Last week, one obstacle was surmounted when a $300m concession was awarded to build and operate a 700km gas pipeline to feed a new power station near the town of Mérida, in the south-eastern Yucatán peninsula. The contest was won by a consortium of TransCanada Pipelines of Canada, Bechtel's Intergen Group of the US and Mexican construction group Gutsa, although other bidders had offered lower prices.

In addition, a second concession to distribute natural gas was awarded to the consortium Distribuidora de Gas Natural de Mexicali (DGN), made up of the Mexican company Próxima and the US based Pacifica Enterprises and Enova-San Diego Gas & Electric. The concession, for the area around the northern city of Chihuahua, implies investment of $46m and involved the privatisation of pipelines belonging to state oil monopoly Petróleos Mexicanos (Pemex).

Mr Jesú Reyes-Heroles, the energy secretary, said other gas concessions, including that for the industrial town of Toluca in central Mexico, would now go ahead. Although DGN also won the first gas distribution concession, for the border town of Mexicali, he said Mexico's competition commission would stop monopolistic practices.

Government officials said the four power generation projects to be granted this year would conform to a Build-Lease-Transfer model, but they might also give companies the option of keeping the plants.

Mr Reyes-Heroles also said that the government was confident that it could complete its politically sensitive sale of minority stakes in petrochemical interests during the second half of the year.

Internet phone service developed

By Alan Cane

USA Global Link, a fast growing US pioneer in the use of technology to cut the cost of international telephone calls, says it has developed the first telephone-to-telephone Internet service. It plans to make the service available in the US, Germany, Japan, the UK, France and other countries within the next six months.

The significance of its claim is that it will be able to provide its customers with calls at a fraction of the usual cost – essentially a call to anywhere in the world for the cost of a local call. The price of conventional international calls is held artificially high by the Accounting Rate System, a cartel through which international operators agree how much to pay each other for delivering the others' calls.

Using the Internet, the world's largest and most comprehensive computer network, to carry calls will enable customers to sidestep the Accounting Rate System.

Global Link said the system was capable of transmitting voice, fax, video and data without the delays or problems of quality which have characterised Internet telephony in the past. Customers would not need personal computers to make use of the system.

The Internet is designed to transmit packets of information, which are reassembled into complete messages on arrival, rather than voice traffic which can be delayed and distorted. But Global Link said it had developed technology to overcome the difficulties. It plans to invest $500m to implement the system worldwide.

Global Link was a pioneer of "call-back" telephony, a method of cutting the cost of calls from countries where international tariffs are high by reversing the direction of the call.

Call-back, call rerouting and Internet telephony are all technological developments which are expected to bring about the demise of the accounting rate system.

WORLD TRADE NEWS DIGEST

Sweden hits at EU on dumping

Sweden yesterday criticised the European Union's anti-dumping policies, saying it too often imposed import duties on cheaper foreign products.

Mr Leig Pagrotsky, the country's trade minister, told Sir Leon Brittan, EU Trade Commissioner anti-dumping duties were "a tax on consumers".

He specifically raised the case of import duties on handbags from China. Production of simple types of handbags was being located to low-cost countries while activities such as product development, design, marketing and administration were retained in the EU.

"This development in my view represents a sound and rational adaptation, and I think it is a mistake to try to prevent it through anti-dumping measures," Mr Pagrotsky said.

Last month, the EU executive introduced anti-dumping duties of nearly 40 per cent on imports of handbags from China. *Reuter, Brussels*

Vietnam fuel sale delay

Distribution of petrol and diesel fuel in Vietnam is likely to remain closed to foreign companies at least until the nation's first oil refinery is built, an official of Vietnam Oil & Gas (PetroVietnam) said yesterday.

The government has offered the right to distribute fuels to attract foreign participation in the refinery, said Mr Nguyen Thanh Hai, a deputy managing director at PetroVietnam responsible for product distribution.

Mr Hai said the government would not allow a proposal from Shell to form joint ventures with two state-owned companies to retail petrol in Ho Chi Minh City and Hanoi. The government was concerned about the impact on domestic companies of competition from a large foreign company.

"The market isn't open yet but I think the day will come," Mr Hai said.

PetroVietnam was currently considering a number of different product joint ventures, including a $100m bitumen manufacturing plant. *AP-DJ, Ho Chi Minh City*

Manila bus system agreed

Three Asian groups have signed a joint venture agreement to build a 5.5bn pesos ($209m) modern bus system and road network project in Manila on a build-operate-transfer basis.

Malaysia'a Renong, Singapore-based Volvo-Asia and the local group Philtrak-Volvo will build the People Mover System, an elevated road network designed to ease Manila's traffic congestion.

The 110 buses will have computerised tracking systems and magnetic ticketing machines. *Justin Marozzi, Manila*

Philippines loan pact

The Philippines has signed a Y124bn ($1.1bn) loan agreement with Japan. The concessional funding, agreed during an official visit to Tokyo by Mr Domingo Siazon, the Philippine foreign secretary, will be used to finance 14 development projects. Two will be in Mindanao, the southern region where a lack of infrastructure and communications remain an obstacle to economic development. Japanese missions have visited Mindanao twice since the peace deal struck last September between the Philippine government and the Moro National Liberation Front. *Justin Marozzi*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Clinton seeks to end budget impasse

By Gerard Baker in Washington

President Bill Clinton of the US is prepared to drop some of his plans for tax cuts in an effort to reach an agreement with the Republican-controlled congress to balance the federal budget.

Talks between the two sides are continuing this week during the congressional Easter recess. Administration officials said at the weekend they would be prepared to give new impetus to the discussions by foregoing their proposed tax reductions if Republicans would do the same.

"If having a separate vote on tax cuts turns out to be a means of getting a bipartisan balanced budget agreement, we're open to that," said Mr Gene Sperling, chairman of the president's National Economic Council.

The White House was responding to a controversial call to fellow Republicans last week from Mr Newt Gingrich, the Speaker of the House of Representatives, to put balancing the budget ahead of their demand for tax cuts. Mr Gingrich's remarks were at odds with the previous official Republican line, which is that the party would not agree to any deal with the White House that did not include substantial tax reductions.

Last month the president unveiled proposals he claims would eliminate the current $120bn federal deficit and balance the budget by 2002. The proposals included tax cuts worth a total of $98bn over five years targeted at lower and middle income families and some spending reductions. But the Republicans have pressed for much greater tax cuts, up to about $200bn, paid for by deeper cuts in spending, especially in entitlements programmes such as Medicare, the health insurance plan for the elderly.

Talks between the two sides stalled two weeks ago, following a failure to bridge the gap between the two sides basic tax and spending plans. A potential solution to the impasse, a proposal by Sen Trent Lott, the Senate Republican leader, that the two sides reach a bipartisan agreement to reduce the rate at which government benefits are increased each year, was rejected by the White House.

Mr Clinton's latest offer, however, seems unlikely to break the deadlock either. Many Republicans were furious with Mr Gingrich for having traduced what they see as one of the central tenets of modern American conservatism – the case for reducing the role of government by continuing reductions in taxes.

Party leader quits post in drive to build a platform for presidency

Taking on the establishment in Chile

By Imogen Mark in Santiago

Successful politicians rarely resign in mid-career, least of all in Chile, where mid-life crises are not yet a concept much less an acceptable state of mind.

So when Mr Jorge Schaulsohn, a 43-year-old former president of the lower chamber of Congress and president of the social democrat Party for Democracy, announced he would not run again in the December congressional elections, the news provoked surprise.

Mr Schaulsohn is quite clear why he is going, and what he wants to do next. His plan is to form a Chilean association for civil liberties, to speak out on issues such as divorce, abortion, women's and minority rights.

"Chilean society is less conservative than the establishment," he says. "For example, opinion polls show 34 per cent of people are not against abortion. But politicians can't even talk about the issue, it's taboo."

Even more striking, an overwhelming majority of Chileans are in favour of legislating for divorce. But Congress has only just agreed this year to debate a future law, and the government will not sponsor a bill before its term ends in March 2000.

"Congress has very low self-esteem," he says. "It doesn't act like a power of the state, doesn't seriously question the executive, and it doesn't have the information resources to do so, even if it chose to. And the government deals with the right, [the opposition], outside Congress and then sends draft laws already pre-negotiated."

Although the centre-left government Coalition for Democracy has a solid majority of elected congress seats, it has to negotiate all legislation with the two right-wing opposition parties because of the presence in the Senate of eight non-elected senators.

They were nominated for an eight-year term at the end of the military dictatorship in 1989, and vote consistently with the opposition parties, giving them a de facto majority in the upper house.

The two past and present Coalition governments have already tried and failed to change the constitution to abolish the designated senators, though yet another bill proposing to do away with them has just gone to Congress. Mr Schaulsohn does not think this bill will pass either.

"But the real constitutional issue is one no-one even talks about any more," he says. "It's the role of the armed forces, the fact that all four commanders-in-chief sit on the national security council and have a say in nominating other authorities, and that the president has very little power over them, except to name the commanders."

So the transition from dictatorship to democracy since the beginning of the 1990s has followed the path the outgoing dictator, General Augusto Pinochet, laid for it, Mr Schaulsohn says.

"Look at Pinochet's role, he has become the figure of the transition much more than [the first elected president, Patricio] Aylwin. He's recycled his image and he'll end up in the Senate [as an ex officio life senator]. He's become a Hollywood celebrity."

With an emasculated Congress and a still-powerful military presence, real hope for change lies outside the political establishment, Mr Schaulsohn concludes. "As living standards improve, people are going to start wanting change on social issues, they are going to want a more open, tolerant society."

That is what he wants to help build. His critics inside and outside his own party suspect he will also build a platform for a future presidential campaign, and he is frank about his presidential ambitions. But his mission for now is to challenge the establishment and break the mould of traditional Chilean politics.

Pérez: former president

Tainted Pérez to 'ideological rescue'

By Raymond Colitt in Caracas

Mr Carlos Andrés Pérez, Venezuela's two-time ex-president, who survived two coup attempts but was impeached in 1993 on charges of corruption, has formally returned to Venezuela's turbulent political arena.

Expelled from his party Acción Democrática (AD) and stripped by Congress of his life-long honorary post as senator, Mr Pérez, at 74, said he was convinced he could still show Venezuelans "a new way of doing politics".

At the head of his Movement of Opening and National Participation, launched last week, he claimed to be seeking to rescue a discredited political system.

"Democracy has temporarily lost its base of subsistence – the political parties," said Mr Pérez. "They have no ideology," he said, adding that he himself has not changed and "continues to be a social democrat". His economic austerity measures provoked bloody street riots in 1989.

Prohibited by law to run in the 1998 presidential elections, Mr Pérez now wants to set its "electoral agenda" and run as senator for his distant home-state of Tachira, along Venezuela's western border. Having served more than two years under house arrest until last September on charges of misappropriating public funds, Mr Pérez says he wants to lead the nation's fight against corruption.

Despite his tainted credentials Cap, as he is commonly known after his initials, still draws crowds in the street and has a strong following of loyal supporters.

Whichever presidential candidate he decides to back, analysts say, he may prove more than a pebble in the shoes of the established AD and the Christian-democratic Copei party in their march towards the presidency.

"Carlos Andrés Pérez is a very charismatic leader and, although he may not be able to exercise his leadership within AD, he certainly does outside the party," said Mr Flavio Carucci at the Latin American Institute of Social Science Research (ILDIS). Mr Pérez may well capitalise on popular anti-party sentiments, he said.

Despite 26 months of seclusion in his luxurious villa on the outskirts of Caracas, Mr Pérez has not lost contact with the outside world, thanks to the Internet and other means of modern technology.

To many, the comeback smacks of a search for vengeance and an attempt to prove he is still a political force to be reckoned with. "I've been victim of a slanderous campaign by the senate," he said.

Yet rather than strengthening political parties, critics say, Mr Pérez's break-away movement may add to a growing trend of using parties as mere electoral spring boards. President Rafael Caldera, life-long rival of Mr Pérez also founded his own party before reaching the presidency in 1994.

US healthcare costs: the treatment is wearing off

The savings enjoyed by corporate America from 'managed care' are threatening to come to an end soon, writes Lisa Bransten

The spectre of runaway healthcare costs is returning to haunt corporate America.

Many of the savings enjoyed by US employers over the past three years have been wrung out of the system as a majority of American workers were shifted to "managed care" insurance, which controls what health services they can get and at what price.

Now both healthcare providers – doctors, hospitals and the like – and consumers are trying to reclaim some of the power they lost in that shift.

Most people in the US are covered by private health insurance, which they receive through their employers. As healthcare costs rose sharply in the 1980s, employers turned from using insurers that provided traditional coverage – simply paying for any services provided – to insurers, known as health maintenance organisations (HMOs), that more closely monitored medical services.

By last year about 75 per cent of working Americans were covered through HMOs, or some other sort of managed care. This contributed to a significant containment of healthcare costs.

Since 1994, healthcare costs have risen less than inflation, according to Foster Higgins, a benefits consulting firm. Last year companies' spending on health plans rose 2.5 per cent compared with a 3.3 per cent rise in consumer prices.

But Mr John Erb at Foster Higgins believes the downward trend is over. A survey by the firm of 3,200 employers found that most expect costs to rise an average of 4 per cent this year. Mr Erb says growth could return to double digits by 1998.

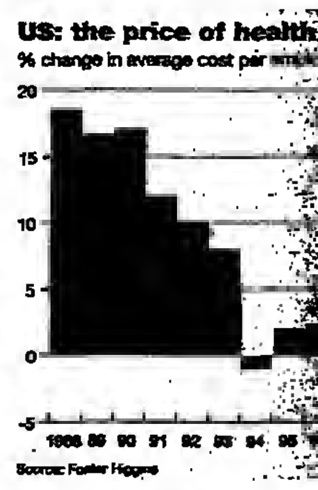
One reason for the change is that a good part of the savings has come at the expense of healthcare providers such as doctors and hospitals, and they are beginning to fight back. Some HMOs employ their own doctors and operate healthcare facilities, but an increasingly common method of controlling costs – such as the explosion of expensive tests – has been to pay doctors "per-patient" or "per-day" fees regardless of the care.

Now, however, more and more doctors are joining forces in an effort to gain bargaining power over the managed care companies, and there has been considerable consolidation in the hospital sector.

Employers are beginning to see it coming. Rising hospital costs are among the primary worries for Ms Linda Franklin, director of employee benefits at Skadden Arps, which with 2,800 employees is one of the largest law firms in the US. Healthcare costs for the firm dropped last year and have held steady this year, but Ms Franklin does not think that will continue indefinitely.

Increased medical costs have also led many managed care companies to raise the premiums they charge employers. Last year the battle for market share was such that many HMOs held down premiums at the expense of profit margins, but that is changing, says Mr Gary Frazier, a healthcare analyst at Bear Stearns, the US investment bank.

Premiums on managed care plans fell an average of 1 per cent last year, he says,



but he is expecting a rise of 2 to 3 per cent this year and an increase of 3 to 5 per cent in 1998.

Another pressure on healthcare costs is coming from the consumer side where more limited access to services has provoked a backlash against managed care that members of Congress are rushing to address.

There is little data to prove that the advent of managed care has led to a deterioration of healthcare, but stories of parents driving their children long distances to "plan-approved" emergency rooms and patients being denied special treatments are widespread.

"In too many cases the pressure for profits has led to lesser care, not better care," said Senator Ted Kennedy last month as he introduced his sweeping Health Insurance Bill of Rights.

The legislative push began at the end of last year with the passage of a law that put a stop to "drive-through deliveries" by requiring that women be allowed to stay in hospital at least 48 hours after giving birth. Another law prevents insurers offering less coverage for mental care than physical care.

This year Congress has moved on to "drive-through mastectomies" and is also taking on some of the more controversial ways managed care companies control costs.

One bill deals with "gag clauses", which are components of contracts between HMOs and care providers that some doctors say prevent them from discussing treatment options not offered by a patient's insurer. Another requires that patients be given more freedom to seek expensive emergency room treatment.

Ms Karen Ignagni, president of the American Association of Health Plans, says that "were this legislation to pass it would turn back the clock. We would be back in an environment that would be very close to the environment that became unaffordable to consumers and became unaccountable in terms of measures of quality."

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	101.9	98.8	102.1	99.8	85.0
1987	105.6	100.7	103.9	97.5	76.1
1988	109.9	103.2	106.8	99.4	71.0
1989	115.2	108.5	109.8	101.4	74.9
1990	121.5	113.9	113.6	104.0	73.2
1991	126.6	116.3	117.3	107.8	74.1
1992	130.4	117.7	120.1	107.0	74.1
1993	134.3	118.2	123.1	106.7	76.6
1994	137.8	119.9	126.5	105.4	74.5
1995	141.7	122.2	129.7	106.8	68.8
1996	145.8	125.4	134.0	104.9	73.4
1st qtr.1996	2.7	2.2	2.7	−0.4	72.0
2nd qtr.1996	2.8	2.5	3.4	−0.5	73.4
3rd qtr.1996	2.9	2.9	3.4	−0.9	73.6
4th qtr.1996	3.2	2.9	3.6	−0.9	74.5
March	2.8	2.4	2.2	−0.3	72.3
April	2.9	2.4	6.5	−0.3	73.0
May	2.9	2.3	3.4	−0.3	73.5
June	2.8	2.7	3.4	−0.9	73.8
July	2.8	2.6	3.2	−1.5	73.8
August	2.9	3.0	3.5	−0.8	73.3
September	3.0	3.0	3.4	−0.8	74.1
October	3.0	3.0	3.3	−1.0	74.4
November	3.3	3.0	3.5	−1.4	73.6
December	3.3	2.8	3.9	−0.4	75.2
January 1997	3.0	2.5		−0.1	76.8
February	3.2	2.2			79.0

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	100.9	95.3	101.4	102.7	118.5
1987	101.3	92.5	103.1	100.0	122.8
1988	102.3	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	96.8	123.5
1990	108.3	95.7	120.1	99.7	108.2
1991	111.8	96.8	124.2	103.9	113.2
1992	114.0	95.9	125.6	112.8	114.6
1993	115.4	94.3	125.8	118.8	132.3
1994	116.2	92.8	128.4	116.5	137.8
1995	115.8	92.0	132.5	115.8	138.6
1996	115.8	91.8	135.9		118.9
1st qtr.1996	−0.8	−0.9	1.8	−0.4	122.4
2nd qtr.1996	0.1	−0.8	1.6	−0.5	121.0
3rd qtr.1996	0.0	−0.8	4.8	−3.5	118.1
4th qtr.1996	0.1	−0.6	2.0		114.3
March	−0.2	−0.9	2.7	3.4	122.1
April	0.2	−0.9	2.4	−0.1	121.2
May	0.1	−0.8	2.1	−2.5	122.4
June	−0.1	−0.8	0.8	1.2	119.0
July	0.4	−0.8	3.6	−5.6	118.4
August	0.0	−0.7	7.8	−1.8	118.9
September	−0.4	−0.9	3.0	−3.2	117.1
October	0.0	−0.8	2.8	−5.2	115.0
November	0.1	−0.8	2.5	−2.7	114.4
December	0.2	−0.4	1.5		113.7
January 1997	0.0				111.8
February	0.1				109.1

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	99.9	97.5	103.6	103.8	107.4
1987	100.1	95.0	107.8	107.1	110.9
1988	101.4	96.2	112.6	106.9	109.9
1989	104.2	99.3	117.1	108.0	107.5
1990	107.0	101.0	123.5	110.3	109.9
1991	110.9	103.4	131.3	109.5	107.6
1992	116.5	104.9	138.2	115.3	110.3
1993	121.7	105.1	145.6	118.5	112.2
1994	125.1	105.7	150.8	112.0	110.7
1995	127.4	107.5	155.8	110.7	115.6
1996	129.3	107.1			110.7
1st qtr.1996	1.8	−0.2		3.7	113.1
2nd qtr.1996	1.5	−0.8		0.7	110.2
3rd qtr.1996	1.5	−0.6		−2.7	110.7
4th qtr.1996	1.4	−0.3			108.7
March	1.7	−0.3	n.a.	1.0	112.1
April	1.5	−0.5	n.a.	0.0	110.9
May	1.7	−0.5	n.a.	2.0	109.6
June	1.4	−0.8	n.a.	0.0	110.0
July	1.8	−0.7	n.a.	−2.0	110.6
August	1.4	−0.7	n.a.	−4.0	111.2
September	1.4	−0.8	n.a.	−2.0	109.9
October	1.5	−0.3	n.a.	−3.9	105.8
November	1.4	−0.3	n.a.	−4.9	108.1
December	1.4	−0.8	n.a.		108.2
January 1997	1.8	0.7	n.a.		107.4
February		0.6	n.a.		106.7

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	102.5	98.0	104.5	101.8	103.4
1987	105.9	98.1	107.8	103.0	104.6
1988	108.8	102.9	111.1	104.1	102.1
1989	112.6	108.2	115.4	105.2	99.6
1990	116.5	107.1	120.9	109.6	102.6
1991	120.2	105.9	125.8	113.4	100.7
1992	123.1	104.3	130.3	115.6	102.6
1993	125.6	101.5	133.5	116.1	101.9
1994	127.7	102.7	136.9		101.4
1995	130.0	103.7	139.0		101.4
1996	132.6		142.7		101.4
1st qtr.1996	2.1	−1.2	2.6		101.6
2nd qtr.1996	2.4	−3.9	2.5		101.7
3rd qtr.1996	1.8	−5.2	2.6		101.4
4th qtr.1996	1.7		2.7		101.0
March	2.3	n.a.	n.a.	n.a.	102.3
April	2.4	n.a.	n.a.	n.a.	102.1
May	2.4	n.a.	n.a.	n.a.	101.5
June	2.3	n.a.	n.a.	n.a.	101.5
July	2.3	n.a.	n.a.	n.a.	101.5
August	1.6	n.a.	n.a.	n.a.	101.3
September	1.5	n.a.	n.a.	n.a.	101.3
October	1.9	n.a.	n.a.	n.a.	101.6
November	1.5	n.a.	n.a.	n.a.	101.0
December	1.7	n.a.	n.a.	n.a.	100.4
January 1997	1.8	n.a.	n.a.	n.a.	98.6
February	1.6	n.a.	n.a.	n.a.	97.8

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	108.1	100.2	104.8	102.8	101.3
1987	111.0	103.1	111.8	105.5	102.2
1988	116.5	106.8	118.4	109.7	101.0
1989	124.2	113.1	125.6	112.3	105.3
1990	131.7	117.8	134.7	118.8	112.0
1991	140.3	121.7	147.8	129.8	113.2
1992	147.7	124.0	155.8	134.4	109.9
1993	153.9	128.7	161.6	136.7	96.2
1994	160.0	133.5	167.0	137.8	94.2
1995	168.5	144.0	172.2	137.8	91.2
1996	175.0	146.4	175.3		102.9
1st qtr.1996	5.0	4.8	1.9	1.8	99.2
2nd qtr.1996	4.2	1.5	2.1	2.6	103.1
3rd qtr.1996	3.5	0.1	1.7		103.6
4th qtr.1996	2.7	0.5	1.9		105.8
March	4.5	3.7	1.9	n.a.	100.1
April	4.5	2.6	2.0	n.a.	101.9
May	4.3	1.5	2.0	n.a.	103.8
June	3.9	0.7	2.2	n.a.	103.9
July	3.6	0.3	1.8	n.a.	103.6
August	3.4	0.4	1.9	n.a.	102.9
September	3.4	0.5	1.3	n.a.	104.1
October	3.0	0.7	1.5	n.a.	105.7
November	2.6	0.9	1.5	n.a.	105.2
December	2.5	0.8	1.9	n.a.	106.5
January 1997	2.8	0.9		n.a.	107.1
February	2.8			n.a.	105.4

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1986	103.4	101.4	107.7	105.1	94.3
1987	107.7	104.9	116.3	107.5	94.6
1988	113.0	108.7	126.2	110.8	101.9
1989	121.8	113.9	137.2	116.1	100.5
1990	133.3	121.0	150.1	122.7	101.4
1991	141.2	127.5	162.4	129.6	104.4
1992	146.4	131.5	173.1	130.5	101.1
1993	148.7	136.7	180.9	130.4	93.6
1994	152.4	140.1	189.5	130.1	94.6
1995	157.6	146.0	198.0	134.2	91.2
1996	161.5	149.9	206.7	139.6	94.2
1st qtr.1996	2.8	3.6	4.4	3.9	90.8
2nd qtr.1996	2.3	2.9	4.2	4.4	92.3
3rd qtr.1996	2.2	2.1	4.5	4.7	93.5
4th qtr.1996	2.6	2.1	4.6	3.2	100.0
March	2.7	3.4	4.8	4.2	90.9
April	2.4	3.2	4.3	4.4	91.2
May	2.2	2.8	4.0	4.4	92.0
June	2.1	2.6	4.3	4.5	93.6
July	2.2	2.2	4.4	3.9	93.7
August	2.1	2.1	4.6	5.2	92.7
September	2.1	2.2	4.7	4.6	94.1
October	2.7	2.3	4.0	3.5	96.6
November	2.7	2.1	4.7	4.0	100.7
December	2.5	1.7	5.1	2.8	103.1
January 1997	2.8	1.5	4.2	2.7	106.4
February	2.7	1.3			105.1

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted. US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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THE DOLLAR OR

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ASIA-PACIFIC NEWS DIGEST

LDP politician found guilty

Mr Takao Fujinami, the leading figure in Japan's Recruit scandal, in which top politicians were bribed with cheap shares in an employment agency during the 1980s, was yesterday given a three-year suspended prison sentence and fined Y42.7m ($349,000).

The guilt of Mr Fujinami, a former chief cabinet secretary for the ruling Liberal Democratic party, is another dent in the government's image as its popularity sinks to new lows and the leadership of Mr Ryutaro Hashimoto, the prime minister, comes under attack in the press. The Tokyo High Court declared Mr Fujinami guilty of receiving bribes, overturning his acquittal by a lower court three years ago. *William Dawkins, Tokyo*

● Japan's diffusion index of leading economic indicators turned negative in January, ending a run of four positive months, but economists said the trend was still positive. The index, calculated from 13 component indicators, stood at 44.4 per cent, down from a revised 63.6 per cent for December.

A figure below 50 per cent indicates a negative outlook for business. *Bethan Hutton, Tokyo*

Backing for Singapore bridge

Malaysia's cabinet has approved the building of a bridge to replace the 74-year-old causeway, at present the only terrestrial link to Singapore. The move has considerable implications for air and road transport and provides a glimpse of the rivalry which underlies the two countries' relationship.

Mr Samy Vellu, Malaysia's minister of works, said the new bridge and demolition of the causeway would allow ships to sail through the narrow strait.

Singapore's cabinet has yet to make a public its stance on whether the 1.2km causeway, often chronically congested, should be demolished to make way for a bridge. *James Kynge, Kuala Lumpur*

Pakistan to withhold subsidies

Pakistan's package of economic reforms, due to be announced this week, may include sweeping proposals to cut losses in the public sector by putting it under "zero budgeting", a senior government official said yesterday.

Under the plan, the government would withhold subsidies from the next financial year which begins on July 1 for most of the 250 public sector corporations and independent departments except for a handful of essential services. *Farhan Bokhari, Islamabad*

Taiwan in hog disease assault

Taiwan has called in army recruits to help cope with an outbreak of foot-and-mouth disease sweeping the country's hog farms and threatening to torpedo the country's fragile economic recovery.

Officials said at the weekend the losses in exports would cut Taiwan's total gross domestic product forecast for 1997 by half a percentage point to 5.78 per cent. In a worst-case scenario, the outbreak could shave 1.4 percentage points off economic growth. The cabinet's Council of Agriculture said 3.5m head of hog might need to be slaughtered.

Taiwan's agricultural sector accounts for about 3 per cent of GDP. *Laura Tyson, Taipei*

A centralised pensions scheme is intended to add liquidity to financial system

Thais face compulsory savings

By Ted Bardacke in Bangkok

A new rescue package will begin to prop up Thailand's battered financial markets this week when the country takes its first cautious step towards a system of compulsory savings.

From Thursday a new centralised Government Pension Fund (GPF) worth about Bt71bn ($2.7bn) will replace the old civil service pension system and begin operations as a privately managed autonomous entity. Three per cent of government employees' salaries will be automatically withheld and the government will match that amount with contributions to the fund.

By September, all 60 of the country's state enterprises are required to do the same. Private companies receiving new government privileges ranging from investment incentives to stock market listings also must set up compulsory savings schemes with employer and employee contributions ranging as high as 15 per cent of total wages.

Under normal circumstances the moves to boost personal savings would be hailed as a certain long-term cure for one of country's most pressing structural weaknesses: a huge current account deficit, compounded by one of the lowest household savings rates in Asia.

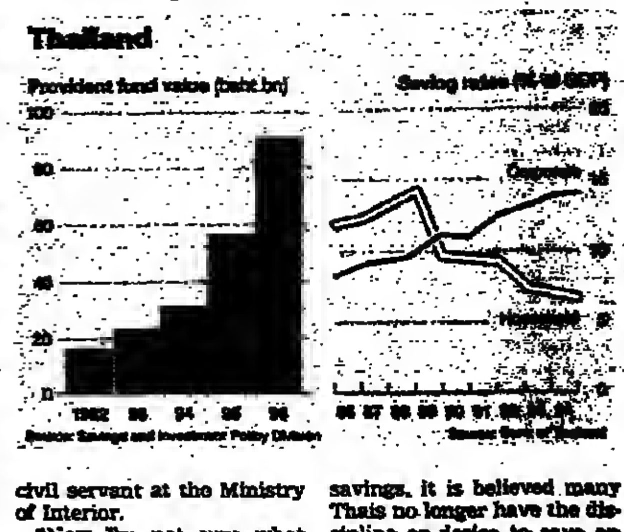
However, with financial and property companies going bust and the baht under periodic attack, times are not normal in Thailand. Savings from government employees, amounting to about 15 per cent of the country's monetary base, are therefore being pressed into emergency service to help bail out the sagging property sector, providing much needed liquidity to the financial system and, eventually, boosting the flagging stock market.

No private fund managers have yet to be appointed for the GPF, suggesting that government officials can initially determine where the money ends up. Some is likely to remain in the fiscal reserves (money left over after a decade of budget surpluses) until financial authorities are assured that Thailand will not run a budget deficit in 1997; none of it will end up in the stock market until later this year, Ministry of Finance officials say. Some will be put on deposit with commercial banks.

Much of it will be used by government-guaranteed bonds to raise money for the country's Bt100bn property bail-out fund. While this is convenient for the stability of the overall financial system, it is dangerous for the eventual size of the GPF itself because some current government employees, for whom participation in the new scheme is voluntary, are balking at handing over their money to property developers.

"I was going to sign up for it until I heard they were going to give the money to property speculators," says a civil servant at the Ministry of Interior.

"Now I'm not sure what I'm going to do."



The view is echoed throughout the underpaid civil service and by many in the better off private sector as year-end bonuses shrink with the economic growth rate. After several years of rampant consumer spending – much of it fuelled by credit – and a 50 per cent decline in the level of household savings, it is believed many Thais no longer have the discipline or desire to save on their own.

The new schemes aim to correct that. A recent central bank study found that the savings habit is contagious: households which already participate in provident funds save more in other ways than households which do not have some form of automatic savings plan.

Victoria to split gas sector prior to float

By Nikki Tait in Sydney

Victoria's conservative state government, which pioneered the sale of publicly-held electricity assets in Australia, yesterday outlined plans to split the state's gas industry into separate retail and distribution businesses – a precursor to privatisation.

The former Gascor monopoly will be divided into three new businesses, each containing a retail and distribution arm. The retailers will be known as Ikon energy, Kinetic Energy and Energy 21, while the distributors will be Westar, Stratus and Multinet.

The gas transmission business, which has already been formally split out from Gascor into the "Gas Transmission Company", will also be divided into two units – a pipeline division, and a "gas transmission system operator" unit, which will be charged with balancing the gas wholesale market.

The Victorian government first outlined plans for gas privatisation last year. As with the electricity industry, privatisation is to go hand in band with progressive deregulation of the sector, aiming for full competition in small business and retail customers by mid-2001.

However, Mr Alan Stockdale, Victoria's treasurer, acknowledged yesterday that a big difference with electricity restructuring was the lack of infrastructure to provide "upstream competition". "Investment connecting the New South Wales market and Victoria is therefore a high priority," he said, pointing to plans for interconnection between Albury and Wagga and the development of the eastern gas pipeline. He also said that studies had indicated "significant potential" for underground gas storage at Port Campbell, west of Melbourne.

● Australia's federal coalition government yesterday announced plans for a "small business innovation fund" – under which the government will make A$130m ($102m) available to assist small technology-related companies. Private fund managers will be required to match contributions on the basis of A$1 of private capital for each A$2 contributed by the government.

News of the funding came as Mr John Howard, prime minister, outlined a package of proposals aimed at helping the "small business" sector. Companies employing less than 15 people will be exempt from unfair dismissal provisions when they initially take on new employees, for example, and there will be relief for smaller companies from the time-consuming fringe benefits tax filing requirements.

Tung attacked on task force appointment

By John Ridding in Hong Kong

Mr Tung Chee-hwa, Hong Kong's future leader, has come under criticism for his appointment of a prominent property surveyor to head a task force on housing.

The Democratic party and several newspapers charged yesterday that the appointment of Mr Leung Chun-ying represented a conflict of interest and raised concerns about the maintenance of a level playing field in the territory's business sector.

The party also warned that the move to set up task forces on housing, education and welfare, all headed by members of Mr Tung's executive council, an advisory cabinet, risked undermining civil service policy secretaries.

"They will be worried about whether they will remain responsible for policy-making and whether their work will be undermined," said Dr Yeung Sum, vice-chairman of the Democratic party.

Dr Yeung said Mr Leung should resign from his property surveying company, which he founded in 1986 after leaving Jones Lang Wootton. "It is not a question of Mr Leung's integrity, it is a question of whether these matters should just be based on trust," he declared.

Announcing his decision to set up policy task forces at the end of last week, Mr Tung dismissed the risk of conflict of interest. He argued that the studies would focus on long-term strategies and would not benefit individuals. "Because it is a macro-study, conflict of interest does not exist," Mr Tung said. "We will make sure there is no conflict of interest."

Mr Tung, who has cited the territory's housing shortage as one of his main concerns, denied he was moving towards a ministerial system of government.

"This does not deviate from the terms of reference for the executive council in providing the chief executive with informed views," he said.

Japan HIV trial opens

By Gwen Robinson in Tokyo

The start of the trial yesterday of three drugs company executives accused of promoting the sale of HIV-contaminated blood products has highlighted the plight of 2,000 haemophiliacs said to have been infected with the virus in the 1980s.

The case is likely to reignite public anger over the government's failure to enforce standards for blood products, and lead to further cases against those said to have been involved in administering tainted blood in the mid- to late 1980s.

The three accused, all former presidents of Green Cross, formerly known as Japan Blood Bank, pleaded guilty at the Osaka court yesterday to professional negligence charges leading to the Aids-related death of a liver-ailment patient from blood products said to have been HIV-tainted and sold in the 1980s.

The three men are the first corporate executives to face criminal prosecution over the scandal in Japan. Two other pending cases are targeted at the alleged failure of Heath Ministry bureaucrats to halt the sale of unsafe blood products.

The case focuses on the alleged infection in 1986 and subsequent death of one man. Given the vast network of Japanese medical clinics and doctors involved in the sale and administering of blood products in the 1980s, the case is likely to set an important precedent.

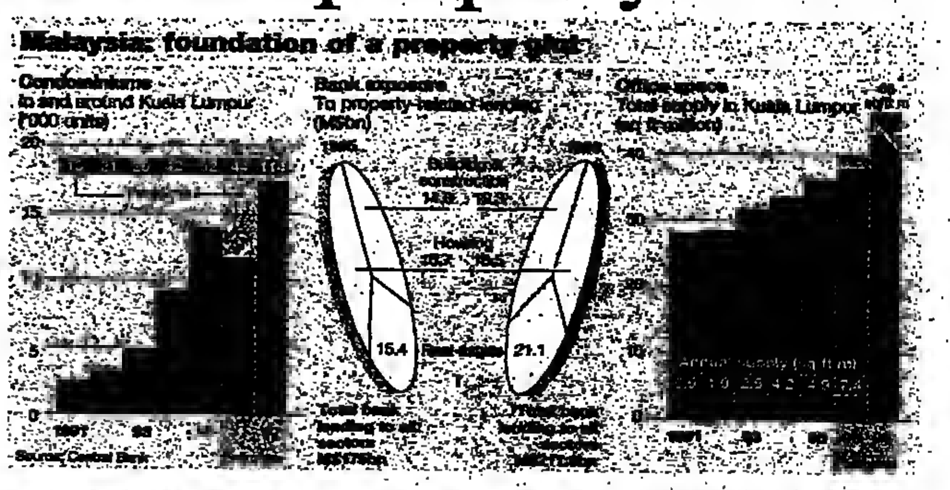
The three executives, Mr Renzo Matsushita, Mr Tadakazu Nagasuyama and Mr Takehiko Kawano, are said initially to have told investigators they knew of the risk of infection from unheated blood products, but were not aware the products could lead to such a "wide spread" of HIV infection and result in deaths.

Green Cross has already agreed to pay more than Y20bn ($163.3m) in out-of-court settlements.

In related cases, Dr Takeshi Abe, an expert on haemophilia and former head of a government task force on Aids in the 1980s, and Mr Akihito Matsumura, former chief of the Health Ministry's division in charge of regulating blood products, face similar charges of professional negligence. Both men have pleaded not guilty.

Unease on KL property boom

The market looks set for oversupply, writes **James Kynge**



The last people to predict a property glut are often those who sell property.

In Malaysia, real estate agents, just like their counterparts elsewhere, are employing characteristic understatement in describing the market. Others are rather more blunt.

"When you can see 10 or 15 construction cranes from your office window, don't tell me that doesn't spell trouble," a senior executive at a foreign bank in Kuala Lumpur said.

Some in Malaysia's capital wonder if they are watching the foundations being laid for the type of property slump which has hit Bangkok and is sending ripples of unease through Thailand's financial sector.

Analysts say that while Malaysia's real estate market looks set to encounter chronic oversupply in some areas, its wider economy is better able to cope with the consequences than Thailand.

But memories of Malaysia's own property débacle of the mid-1980s, which forced Bank Negara, the central bank, to bail out some commercial banks, are being revisited.

"Let us not forget the trauma of the mid-1980s," Mr Ravindra Dass, executive chairman of Dass, Lee and Mohamad, property consultants, warned a conference yesterday.

"We do not want repeat performances of empty skeletons of office skyscrapers or unkempt, abandoned housing schemes dotting our urban fringes," added Mr Dass, who for 21 years until 1990 was the director-general of Valuation and Property Services in the finance ministry.

The worst-hit sectors are likely to be office buildings, luxury condominiums, shopping malls and hotels, analysts say.

Some of the figures are alarming. Office space in and around Kuala Lumpur currently stands at around 38m sq ft, but 93 buildings are at present under construction which are due to add a further 34.7m sq ft by 1998, according to official statistics. This compares with an annual take-up rate of less than 3m sq ft annually.

This bleak picture will be exacerbated if several prestige projects, which have won government approval, all come on stream as planned.

Some precincts of a large new administrative capital, Putrajaya, are scheduled to be ready for Dr Mahathir Mohamad, the prime minister, to move into as his new offices by September 1998. The world's longest building, the 2km-long Gigaworld, is planned to be built in central Kuala Lumpur by 1999, its developers say.

There is already a glut of retail space. But the 14m sq ft at present in service could soon be dwarfed by the 20m sq ft shopping malls which are planned to be built over the next four years.

Prices of many quality condominium units have already fallen by 10-15 per cent in Kuala Lumpur; some apartment blocks are saddled with occupancy rates of about 30 per cent eight months after the first tenants moved in. Yet about 55 condominium projects remain under construction and many more are planned. Other areas of the housing market, however, are considered secure.

Some local real estate agents acknowledge that the situation is "challenging" but others remain optimistic. C H Williams Talhar and Wong predicts that office vacancy may climb to 20 per cent by the end of the year, from 5 per cent now. Overall, however, the property market will remain "stable" this year, the company predicted.

If a glut does occur, Malaysia is considered better equipped to deal with the financial fallout than Thailand. Unlike in Thailand, which is defending its currency by keeping interest rates high, Malaysia's ringgit has been showing an appreciating trend.

This allows the central bank, Bank Negara, considerable latitude to lower interest rates, which are at relatively high levels. Such an action would tend to reinvigorate a failing property market.

Another key difference between the two neighbours is their general economic health. While the wider Thai economy is in the grip of lower growth rates, Malaysia has just recorded its ninth consecutive year of gross domestic product growth at above 8 per cent. Its manufacturing sector remains buoyant, as does inward investment.

But where the two countries may be similar is in the exposure of their banks to property debt. Lending by Malaysian banks for construction, real estate and housing was the most active area of business last year, rising 27 per cent, official figures show.

Officials said that banks' lending to property-related projects accounts for nearly 30 per cent of their total loans – a significant proportion.

In a disturbing echo of the conditions which led to the mid-1980s slump, companies with little natural affinity for property developments are jumping on the bandwagon.

"We see chocolate makers, furniture makers, flour millers, plantation companies and a motley crowd of non-property people 'diversifying' into property," said Mr Dass.

Decision on link between British Airways and American is postponed

Bid rulings delayed by election

By David Wighton, Political correspondent

Bass, the brewing group, will have to wait up to three months for the government's verdict on its bid for rival Carlsberg-Tetley after Mr Ian Lang, chief industry minister, yesterday confirmed he will make no decision before the general election on May 1.

Also delayed until after the election will be rulings on the P&O and Stena ferry merger and the merger between Klaus Jacobs and Societe Centrale, two leading suppliers of bulk chocolate.

Mr Lang said he would make no rulings on the Monopolies and Mergers Commission reports on the three deals or make any decisions based on advice from the director general of Fair Trading on British Airways' proposed alliance with American Airlines.

Mr Lang said the moratorium was in line with the Cabinet Office general election guidance, published last week, which prevents ministers from taking significant decisions during the election campaign. Only in a few cases where statutory deadlines are involved will the secretary of state take decisions on whether or not to refer merger cases to the MMC after the dissolution of parliament on April 8.

Bass yesterday expressed disappointment at the ruling which some analysts said reduced the chances of the deal be eventually cleared.

They said a Labour government, which is committed to taking a tough line on competition policy, might look less favourably on the merger. Analysts said an incoming Labour secretary of state would want several weeks to study the cases, possibly delaying a decision until July.

The Department of Trade and Industry received the MMC's report on Bass/Carlsberg-Tetlay yesterday. Tha reports on P&O/Stena and Klaus Jacoba/Societe Centrale are due on April 4 and April 17 respectively.

The department said yestarday's statement was "intended to reduce uncertainty for business about the timing of merger decisions in the election period".

Under UK competition rules, if the MMC concludes that a merger would not be against the public interest, the secretary of state must approve it. The announcement normally follows four to six weeks later. But if the MMC expresses concerns, tha secretary of state has powers to clear the bid, block it or impose conditions.

The Communist Party of Britain, one of the parties that emerged from a split in the former Communist party, published its election manifesto yesterday and backed the policies of the Labour party.

But officials refused to support Mr Tony Blair, the Labour leader. They said their party would stand in three districts to urge the "elitist Labour leadership" to adopt "socialist policies in the interests of the working class". In its heyday in the 1950s the British Communist party sometimes put up 100 election candidates, and for a time had three MPs.

Central bank may head off inspector army

'Camel' system assesses level of risk before action is taken

Every time a UK bank fails, banking supervisors come under pressure to tighten their procedures to avoid any recurrence.

But the banks in their charge remain anxious in case tighter supervision should turn into the barrage of inspection teams common in the US, or into the tidal wave of administrative forms favoured by some European bank regulators.

With its proposals for a new risk-based system for assessing banks, the Bank of England, the UK central bank, hopes to tread the line between these two dangers, adapting the intensity of its supervision to the risk profile of each bank it oversees.

A bank assessed as high risk might have to go through the supervisory wringer as often as every six months, while a low risk bank might face the same scrutiny only once every two years.

The new Bank of England framework, contained in a consultative paper published yesterday, uses as its starting point a quantitative analysis labelled Camel, which stands for Capital, Assets, Market risk, Earnings and Liabilities. To this is added the central bank's qualitative assessment of each institution's business risks, including operational, litigation or reputational risks. Finally, supervisors will assess the controls, organisation and management of each bank.

The assessments will be carried out partly from documents which are, for the most part, already submitted as part of the supervisory process, but also from a more intensive programme of on-site visits to meet senior management at group level and in all significant business units.

Mr Michael Foot, head of banking supervision, said the central bank might eventually refine its assessment of these nine factors into a numerical grade similar to the Camel ratings used by US supervisors, although the US Camel is made up of different elements to its British cousin.

Mr Foot's own preference is for two grades: one representing the quantitative elements, and one for the more qualitative components.

If the Bank of England does adopt a numerical rating, it will be used internally by supervisors, and not disclosed, as in the US.

Many of the elements in the proposed new supervisory framework are already used in practice, but Mr Foot hopes the rates framework will ensure that all supervisors are measuring the banks in their charge by the same yardstick.

The one hole in the proposed new framework concerns the activities which fall outside the central bank's own supervisory aegis, either non-banking businesses such as fund management or operations which are already supervised by regulators outside the UK.

The Bank of England now has a growing number of memoranda of understanding in place with regulators in many countries, but co-operation is still somewhat patchy.

Singapore, the site of the renegade futures trading by Mr Nick Leeson which led to the collapse of the Barings investment banking group in 1995, has been a particular problem for regulators seeking co-operation.

The new framework has already been tested on two banks, one a relatively simple organisation and the other a more complex group. The more complex of the two has required much more intensive supervision than in the past, involving 23 sets of meetings. There is some concern that this pattern could be repeated across the sector, resulting in a much heavier supervisory burden.

But most banks appear satisfied that the Bank of England does not intend the extra on-site visits to turn into the sort of inquisitorial audits carried out by US bank supervisors.

Testing is now to be extended to 20 more banks this year, and the Bank hopes to adopt the system for all banks incorporated in the UK from 1998.

George Graham

Bank of England's risk assessment

- Capital Overall level and composition of capital base, and bank's ability to raise more capital if needed
- Assets Breakdown of assets, including concentration of lending to particular companies, industries or countries
- Market risk Size and composition of bank's trading book, trading track record and appetite for trading risk
- Earnings Level and volatility of a bank's profitability, including an understanding of where it makes its money
- Liabilities Breakdown of deposits and other funding, including assessment of the bank's liquidity
- Business Assessment of risks to a bank's business plan, including economic and competitive pressures, as well as staff, litigation and IT risks
- Controls Clear framework for decision-making, risk management, financial reporting, audit and compliance
- Organisation Bank's legal structure and relationship to any wider group, adequacy of its board, and segregation of responsibilities
- Management Checking that directors and managers are fit and proper, and have right technical skills, ensuring that at least two people involved in all significant decisions

Housing loans are converted to bonds

By Edward Luce in London

NatWest Markets yesterday converted almost £1hn ($1.59bn) worth of British bousing association loans into bonds in the largest securitisation exercise so far under the government's private finance initiative.

Over 38,000 loans to 1,000 housing associations were transferred from the state's books to NatWest Markets and converted into securitised bonds. The bonds, which will have an average maturity of 28.6 years, will be backed up - or collateralised - by future repayments on the loans.

"This is the largest securitisation of public assets so far," said a banker in London yesterday. "The next big securitisation will probably be the government's student loan portfolio."

The deal involved the transfer of the state's outstanding loans to about half of the country's 2,housing associations. The associations, public bodies set up to provide affordable housing, service the loans with a mixture of rental income and government bousing subsidy paid to tenants. These proceeds will now go towards servicing the bonds.

Officials at NatWest said that the loan repayments will be channelled to an independent bolding company which will operate as a charity. The bolding company, Orchardhrook, will service the debt.

The largest tranche of the bond sale was priced to yield 60 basis points more than long-dated UK government gilts. A basis point is a hundredth of a percentage point. Another £115m tranche, which was set up to deal with the proceeds of unexpected pre-payments of the loans, was priced to yield 80 basis points over gilts. This was designed to compensate investors for the risk of the bond maturing earlier than expected.

Details, Page 22

UK NEWS DIGEST

$1m award to former Name

A former Lloyd's of London Name has won £670,000 ($1.06m) in damages from the accountants who failed to advise him on the risks he faced by investing in certain syndicates in the insurance market.

An antiques dealer and bookseller for 40 years, Mr Keith Fawkes-Underwood was one of thousands of Names – individuals whose assets have traditionally supported business at Lloyd's – who suffered heavy financial losses from their involvement with the insurance market in the late 1980s and early 1990s.

During that period, Lloyd's lost more than £8bn as a damaging spiral of reinsurance exacerbated the effects of a string of natural catastrophes and huge long-term liabilities from pollution and asbestos claims in the US became apparent.

A High Court judge said yesterday in London that Mr Fawkes-Underwood's accountants, at first Hamiltons but later Hereward Phillips after the two companies merged, should have queried his portfolio of Lloyd's syndicetes while providing advice on his affairs at the insurance market. "He had been ill served by his members' agents," the judge said. "He had a very dangerous syndicate list. He needed independent advice."

The judge added that this case did not have any hearing on the roles of accountants in general or Lloyd's members' agents, the companies responsible for handling Names' affairs.

Christopher Adams

■ DISTILLERIES

Ban on sale of clear 'whiskey'

Glen Kella, a clear alcoholic spirit distilled on the Isle of Man, off north-west England, from genuine Scotch whiskies cannot be sold as "Manx whiskey", a High Court judge ruled in London yesterday.

The judge concluded that its production process meant it fell outside European Union regulations governing spirits that qualify as whiskey (or whisky, if produced in Scotland).

Most of Glen Kella's sales are in the Isle of Man, where it sells 20,000 bottles a year, and in Taiwan, where the company has recently concluded a deal to sell 12,000 bottles a year.

The ruling marks a victory for the Scotch Whisky Association which, alongside market leaders Allied Domecq and United Distillers, brought the case to protect the reputations of Scottish products.

John Mason

■ NUCLEAR WASTE DISPOSAL

Underground lab staff to go

The nuclear waste disposal company Nirex is to dismiss workers who would have helped build a new underground research laboratory at the Sellafield nuclear complex in north-west England. The company's appeal against Cumbria County Council's decision to deny planning permission for the £200m ($318m) laboratory was dismissed last week by Mr John Gummer, the chief environment minister. The laboratory would have been used to assess whether the area was suitable as the site for a new £1.9bn nuclear waste dump.

Nirex would not reveal bow many workers it was dismissing and would say only that the number was "significant." A total of 144 people, including 38 Nirex employees, work on the project.

Michael Peel

NEWS: UK

Ilinois group will make up to 500 vehicles a year for Wisconsin Central offshoot

US company to open rail wagon factory

By Charles Batchelor, Transport Correspondent

A US manufacturer of rail freight wagons plans to open a UK wagon-building works to make a total of 2,500 wagons over the next five years, it emerged yesterday. Thrall Car Manufacturing Company is expected to build up to 500 freight wagons a year for English Welsh & Scottish Railway (EWS), the offshoot of Wisconsin Central Transportation which took over most of the UK national network's freight business.

This would mean the revival of UK wagon making which has largely died out in recent years. Most new wagons are imported from France and Finland. Manufacture of the wagons, which is not high-tech, would create jobs.

EWS ordered up to 250 freight locomotives in May 1996 from General Motors of the US because of a lack of competing offers from UK or other European suppliers.

Mr Ed Burkhardt, EWS chairman and chief executive, revealed the plans for the creation of the UK wagon building plant in an interview with Rail magazine. He said he expected the first of the new wagons to roll off the production line "within a year."

"We'll have a detailed announcement within the next several months," Mr Burkhardt said. "We're looking for a site right now and while I have a pretty good idea where that might be I'm not in a position to say so at the moment because we've still got to make some deals."

The wagons are expected to include enclosed "vans", flatbed wagons used to carry containers and road trailers, vehicles for carrying steel coils and those for transporting track maintenance materials and equipment. It is unclear whether EWS will take a direct involvement in the plant or simply be a launch customer for it.

It is also uncertain whether Thrall will opt for a greenfield site which might attract inward investment grants or choose to revive a redundant existing wagon works.

"The UK wagon building industry has almost disappeared over the last few years," said Mr David Gillan, director of the Railway Industry Association, representing manufacturers. "This should be good news for the UK supply industry."

The largest UK wagon builder in recent times has been Powell Duffryn, but it closed most of its UK capacity a few years ago to concentrate manufacturing in France. Other manufacturers with wagon building potential include Bombardier, the Canadian group which has substantial UK interests and builds passenger carriages at a former wagon works near Wakefield. RFS(E) has a former BR wagon works in Doncaster and W.H. Davis of Mansfield has recently supplied wagons to Indonesia.

Thrall, which is based in Chicago Heights, Illinois, has four manufacturing plants in Illinois and Georgia. It set up a European office in Glasgow in 1995 and also in Scotland has developed a prototype "piggyback" freight wagon to carry road trailers on the UK rail network. That project was carried out at Babcock Facilities Management at Rosyth.

Furniture leads steady recovery in antiques

A shortage deepened by strong exports is helping the trade to climb out of recession

Michael Cowley, head of the furniture department at Phillips, the London auction house. One reason for high prices is the decline in the amount of antique furniture available

The antiques trade is slowly recovering from the longest recession in memory. In the late 1980s, anything that was old managed to be sold – or so it seemed. In 1990, the good times stopped abruptly. Since then, there have been many false starts. Now there is hope of a more solid recovery.

Not surprisingly, it is antique furniture that is leading the way in Britain. Furniture never shared the catastrophic decline in value experienced by paintings (and, to a lesser extent, silver and ceramics), although prices for most run-of-the-mill pieces fell. For furniture made of oak and walnut, the fall was quite sharp.

Now, perhaps on the back of the recovery in house prices, the trade is feeling much happier. The Antique Collectors' Club (ACC) has been monitoring the price of antique furniture for almost 30 years. Its 1996 index finds values at a peak, with a 14 per cent rise on the year.

The attraction of furniture is that, unlike paintings, it is practical. Since everyone needs tables, chairs and cabinets, why not buy antique examples which are likely to appreciate in price compared with modern, department store variants which steadily lose value? Mr John Andrews, who compiles the data for ACC, sees no slackening in the price appreciation. One reason is the continuing decline in the amount of antique furniture available. Thousands of pieces have been exported over the past few decades, to the US and mainland Europe in particular. Then, too, those inheriting collectable objects are now more likely to keep them, aware of their value and appreciative of their attractions. Not surprisingly, Mr Andrews expects an 8 per cent increase in prices across the board this year.

It is easy for the unwary to be fooled by clever faking, and even objects offered in the catalogues of the most respected auction houses raise experts' eyebrows

As the market improves, the old certainties reassert themselves – notably the dominance of Georgian furniture. Late in the 1980s, the shortage of good examples of 18th century furniture pushed the already strong interest in Regency items to greater heights and brought about a cult of Victorian, Edwardian and even later furniture.

It was realised that certain 19th century designers – notably Burges, Pugin and, in the early 20th century, Mackintosh – were producing hand-crafted furniture comparable in genius to anything made in the earlier decades. The big names still command a tremendous premium, but the price of Regency and Victorian furniture generally has not yet experienced the sudden appreciation of 18th century pieces.

At the top end of the trade, dealers such as Mr Stuart Whittington of Norman Adams in Knightsbridge, London, noticed the revival of interest a year ago. Confidence is continuing to build on the back of the property market, which is very strong for houses above £500,000 ($795,000). Mr Whittington has just disposed of a mahogany dining table, made about 1795, for £25,000; in 1973, he sold the same table for £1,850.

Although turnover for the leading dealers dropped in recent years, their furniture rarely fell in price. Since 1980, English furniture has joined French as an international commodity, sought by the mega-rich. Half of Norman Adams' business is outside Britain, with north Americans the main buyers. And, like many dealers, it has been active in repatriating furniture that went abroad in the 1970s and 1980s.

In all antique collecting, however, only the finest examples, the authentic and the attractive, should be acquired. It is easy for the unwary to be fooled by clever faking, and even objects offered in the catalogues of the most respected auction houses raise experts' eyebrows.

If you need furniture, there are compelling reasons to buy antiques. It could not be easier. All the main London salerooms, to say nothing of every regional auction house of any repute, hold regular furniture auctions. Prior viewing and examination are essential, because later restoration is almost inevitable on most 18th century pieces.

Antony Thorncroft

UK ECONOMIC DIGEST

Chancellor says no 'boom-bust'

Mr Kenneth Clarke, the chancellor of the exchequer, yesterday brushed away accusations that he was pushing Britain into another "boom-bust" cycle, as official figures showed that the country recorded its biggest balance of payments surplus for a decade late last year.

The current account was £873m ($1.4bn) in the black during the fourth quarter of 1996, the Office for National Statistics said yesterday. In 1996 as a whole the current account recorded a deficit of only £14m. This was the strongest performance since 1985, albeit flattered by lower payments to European Union institutions.

"A strong pound and rising consumer demand should push the UK back into deficit in 1997," predicted Mr John O'Sullivan, analyst at NatWest Markets. "But the erosion will occur from a relatively healthy starting point". The improvement in the current account largely reflects a narrowing gap between imports and exports of goods and services, plus a growing surplus from net investment earnings. Inflows of investment earnings exceeded outflows by £2.6bn in the fourth quarter, up from £1.9bn in the third.

Mr Clarke said the data showed that "this time we have healthy growth which is not running into the balance of payments problems which caused past booms to turn into busts". *Robert Chote*

■ OUTLOOK FOR JOBS

Employers upbeat, survey reveals

Employer confidence about the outlook for jobs in the second quarter of the year is running at the highest level since 1990, says the latest survey of employment prospects from Manpower, the recruitment group.

The survey of 2,028 employers shows that for the three months from March to June, 26 per cent of employers forecast an increase in job levels, with 12 per cent forecasting a decrease – a balance of 14 per cent. Manufacturing is the most confident sector, with a balance of 19 per cent.

Ms Lilian Bennett, who chairs Manpower, said: "These figures are encouraging, particularly with the high-tech industries leading the field. Our respondents, however, remain concerned about skills shortages, and the effect the strong pound is having on exports." *Andrew Bolger*

■ CONSTRUCTION

Surveyors warn of costs increase

The Royal Institution of Chartered Surveyors reported yesterday that UK construction costs had "leapt over the past 12 months by 7.9 per cent". It warned that costs were likely to rise "at twice the current rate of inflation" over the coming two years.

A separate report by the Civil Engineering Contractors Association said almost a third of companies covered by its workload survey were "experiencing some difficulty in recruiting skilled labour." More than 40 per cent of companies had reported a rise in order books since March last year. This was double the percentage reporting lower activity.

Forecasts that UK construction activity will rise by 3 per cent to 4 per cent this year have increased fears of shortages following deep cuts in production capacity during the recession. *Andrew Taylor*

ARTS

Flemish and Dutch art side by side

Life is too short for lines of distinction between the two peoples, says William Packer

The Palazzo Grassi at Venice continues its series of exhibitions of 20th century art with a study of Flemish and Dutch painting from Van Gogh to more or less the present day. It is an intriguing and in many ways welcome exercise, yet again confirming the obvious but long-neglected truth that there is rather more to modern art than the Franco-centric history of the School of Paris would have us believe.

Rather smaller than some recent Grassi shows, it contains nevertheless many beautiful and remarkable works, and much that deserves to be better known. It is one of those shows that, whatever its argument, is more than justified by the work itself.

In this case the argument is sustainable, up to a point. Van Gogh, for all his virtual adoption by the French, came of an essentially northern expressionist tradition, that goes back to Steen and Breughel. Mondrian, too, while evident in his response to cubism, came of a distinctly northern though different, less hot-blooded line, looking to Sanredam, Vermeer and Ruysdael. Magritte, arch-surrealist, was steeped in the symbolist tradition of Khnopff, Rops and Jan Toorop.

All well and good. The interspersion here and there of actual works of the Dutch and Flemish 16th and 17th centuries makes the nice point of continuity of sensibility, while running counter to the instinctive scholarly habit of hermetic categorisation. A church interior by Sanredam with the photoformalism of Jan Dibbets? A Ruysdael cornfield beside a Mondrian? Breughel and Ensor? Why ever not? Artists themselves have never been the prisoners of narrow art history, but have always plundered it to their own purposes.

But then the curators, Jan Hoet and Rudi Fuchs, still cannot resist the temptation of taking the argument too far, in short, falling back into that same old habit after all in replacing one tight theory by another. We accept, of course, that while they have shared a long and complex history, the Dutch and Flemings are quite different peoples. But is there really a clear distinction of sensibility to be drawn between the cooler realism of those northerners, the Dutch – traced from van Scorel's redcapped scholar of 1531 to Mondrian – and those southern Flemish fantasists, from Patinir to Ensor? But would not that make Van Gogh a dour Dutch northerner, and Magritte a lively, light-hearted southerner? Life is too complicated, too short, for such games. The theory collapses at once.

Which leaves us, as it should, with the works as they are, full of interest, discoveries and surprises. The obvious names stand out, Van Gogh most of all with a spectacular group of paintings, among them the Cedar Walk at Arles, of 1888, so wonderfully direct for all the radical nature of its handling. More remarkable still is the poppy-field of 1890, the year of his death, near abstract in its simplicity and freedom, and so close in spirit to early Mondrian. Here indeed is one of those "nuances, of subtle unity, of completion and contradiction", of which Jan Hoet speaks in his *apologia* in the catalogue. The only pity is that while he is wonderfully well represented from the point of his cubist departure around 1913, there is nothing of early Mondrian in the show.

The Rower, by James Ensor, oil on canvas, 1883: the exhibition usefully sets Ensor against Van Gogh revealing their connections

Ensor, another known star, is pointedly and usefully set against Van Gogh, more fluent and natural a talent, perhaps, but closely sympathetic in feeling and subject-matter – here a self-portrait apiece, and two strong, simple images of working men. The symbolist connection, too, is inescapable in Ensor's work, with his masks, his images of death and religious fantasy, which brings in Khnopff, Jan Toorop, Rops and Spilliaert at the turn of the century, and leads on inevitably to Magritte and Delvaux.

While such obvious connections are clear enough, the picture is opened out, the argument broadened, by the inclusion of other remarkable but to us, perhaps, less well-known figurative examples – the symbolist expressionism of Permeke and De Smet; the mannered social realism of Brusselmans; the heightened realism of Pyke Koch, Charley Toorop and Carel Willink. Charley Toorop, daughter of Jan, must stand indeed as one of the most remarkable yet underrated painters of her time.

Upstairs, the work of more recent years strikes a lower, less urgent note, although the several threads laid out below may still be picked up and followed. The *Cobra* group of the 1950s, with Appel, Constant and Corneille, carries expressionism through towards abstract-expressionism on the one hand, and the knowing naivety of *art brut* on the other. The mannered figuration of Westerik rolls realism, surrealism and symbolism into one.

Broodthaers makes sophisticated conceptual play with ideas that Magritte might well have painted. Brouwn with his lists and numbers, Honneman with his insistent structural repetition, Dibbets with his photographic manipulation of space and surface, carry on where Mondrian and van der Leck, and indeed Sanredam three centuries ago, left off. The wheel is still turning.

Flemish and Dutch Painting – from Van Gogh and Ensor to contemporary artists; Palazzo Grassi, Venice, until July 13: sponsored by Fiat.

Ballet

A toothless Bayadère

Clement Crisp finds the Royal Ballet's staging wanting

La Bayadère is a far more serious work of art than the present Covent Garden revival of Makarova's intelligent staging would have us believe.

At Saturday's first public showing (the production was earlier seen during the Hamlyn week performances, with the sublime Asylmuratova as an unannounced guest) the Royal Ballet showed it as no more than a takeaway curry. Makarova, seeking to honour the intellectual and aesthetic weight of Petersburg tradition, wants us to understand the spiritual life and the resonant physical imagery that underpin every moment of this grand and fascinating ballet.

Fyodor Lopukhov, nurtured in the Tsarist theatre and one of the architects of Soviet dance, thought *La Bayadère* a Dostoyevskian drama of crime and punishment. And the components – Nikiya, a temple dancer, loving and beloved by a warrior (albeit such love is forbidden); lusted after by a Brahmin; her warrior, Solor, also torn between love and a "political" match with princess Gamzatti – make for tensions whose only resolution is the death of the wrong-doers and the ultimate reunion of Nikiya and Solor in an after-life.

All this was shaped by Petipa within the conventions of a grand spectacular, typical in its exoticism and danced complexities of the monumental entertainments that pleased the Petersburg public a century ago.

Like the other old ballets we have inherited from Russia, it is the spiritual dimensions of the production quite as much as the text's stylistic and technical challenges, which have to be respected. And whatever the vagaries of presentation, Russian dancers and producers know this.

Covent Garden's present classic stagings are, for the most part, hollow shams, overdressed and under-powered, danced by rote, interpreted by hazard. And Saturday's *Bayadère* was most remarkable as a display of how far competence may substitute for comprehension. Unlike the company's view of the MacMillan and Ashton repertory, its drama was wan, characterless. (The troupe would be ashamed to offer *Romeo* or *Mayerling* or *Fille* in such cursory fashion).

Subsidiary roles were ludicrous: the Rajah (David Drew) looking and behaving like a sofa; the High Brahmin (Gary Avis) giving a Boy George impersonation; Gamzatti's trusted Aya risibly like Mrs Overall in Victoria Wood's beatific *Acorn Antiques*. Dance standards were no less woolly.

The D'jampe interlude flapped pointless about the stage: the great *pas d'action* looked demure; only Nicola Roberts was able to show her variation in the Shades scene as the jewel that it is. (Miss Roberts incarnates virtues of precision, happy phrasing, clarity, that were nowhere else apparent during the evening).

The central trio – Sylvie Guillem, Darcey Bussell, Jonathan Cope – laboured against dreadful odds. Mr Cope, a fine artist in many roles, appeared bemused throughout, and singularly unheroic. Miss Bussell, looking ravishing, is far too nice a girl for Gamzatti, and is quite obviously A Credit To The School. She danced her pretty waltz variation in the *grand pas* with a delicious sense of its possibilities in phrasing and accent, but villainy and jealousy are not her style.

It was Mlle Guillem who best showed the possibilities of the ballet. Though I think her Nikiya too sunny when she first greets Solor – the character is more nun than innocent maiden – she brings a proper stillness and a "presence" to the drama and the choreography. She can be technically wilful – a couple of extravagant extensions interpose self between us and the character – but the imponderable and holy nature of the Shade was well stated (noiseless landings on to a beautifully articulated foot) and she understands how the Shade Nikiya's message to Solor – "Be true to your vow" – must inform every step, in everything, of course, the dance was fluent. But even she could not put much bite into the toothless dramatics that surrounded her.

Labouring against the odds: Jonathan Cope as Solor

More intriguing casting might be to reverse the present playing of the women's roles: memories of Guillem's Zarema in *Fountain of Bakhchisaray* suggest that she could be a forceful Gamzatti.

All in all, the staging, oddly lit, had a cursory air.

Concert

Empty seats revealed

The power of marketing can be quite unpredictable. There is no conductor alive who sells more recordings than John Eliot Gardiner, but in the UK at least, the public that buys his records does not seem nearly so enthusiastic about attending the concerts.

There were empty seats at the Barbican last weekend for Gardiner's very enterprising series entitled "Schumann revealed", even though we can be sure that the recordings coming out of it will sell in armfuls. What keeps people away? The difficulty of securing financial backing in London means that Gardiner and his Orchestre Révolutionnaire et Romantique do not appear here often and one would have thought their live appearances were all the more collectable for that.

Ever since Roger Norrington launched his "Experiences" (each a weekend of music and scholarship devoted to a single composer) rivals have wanted to have experiences of their own.

Gardiner's Schumann proved an enjoyable one. There were three evening concerts, a chamber music recital and a couple of talks, and the effervescence of the music-making made them all go down very easily.

It is not so long since Nikolaus Harnoncourt came to the Barbican with his view of the Schumann symphonies in fast and gripping performances, played by the Chamber Orchestra of Europe. In many ways Gardiner was similar in outline, just as swift and even clearer with the period instruments of the ORR; but where Harnoncourt had hammered relentlessly at the rhythms, Gardiner was lithe and joyous. The music really felt as though it was composed in the spring of German romanticism.

The four symphonies are being divided, the First and Fourth now, the Second and Third to follow at another weekend in the autumn. For the Fourth, Gardiner proposed a novelty. On Friday he offered the original 1841 version, shorter and lighter, with a keener ear for detail, and on Saturday followed it with the familiar revision of 1853. The audience was invited to declare its preference and my vote goes to the 1841 original, after which the usual version sounded thick and stolid – just as people have accused Schumann of being.

As so often in period performances, the concertos worked less well. Thomas Zehetmair was suitably rhapsodic in the Violin Concerto, but Schumann's inspiration there wanders inconsequentially; and Robert Levin, for all his expertise, never quite overcame the problems of a period fortepiano in a modern concert-hall, where the solo instrument needs a richer resonance and colour.

The oratorio *Das Paradies und die Peri* on Sunday night, however, worked perfectly: a luminous lightness of texture and delicate precision of performance all round. The outer sections of the work lack memorable material, which is doubtless why it is neglected, but in the central tableau Schumann turns to the homely innocence found in so much German music from *Die Zauberflöte* to *Hansel und Gretel* and gives it a heavenly early romantic sheen.

There was a satisfactory line-up of soloists, with Barbara Bonney's pure-voiced Peri and Bernarda Fink's dignified Angel rising to the occasion. The ORR and Monteverdi Choir met Gardiner's exacting demands with their expected professionalism.

The recording should sell very well.

Richard Fairman

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Orlando Quartet: perform works by Beethoven; Mar 28

■ BERLIN

CONCERT
Philharmonie Berlin - Grosser Saal & Kammermusiksaal Tel: 49-30-2614383
● Matthäuspassion: by Bach. Concert performance conducted by Hans Hilsdorf and performed by the Sing-Akademie zu Berlin and soloists from the Berliner Symphoniker; Mar 28

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Parsifal: by Wagner. Conducted by Daniel Barenboim, performed by the Staatsoper Unter den Linden. Soloists include Poul Elming, Andreas Schmidt and John Tomlinson. Part of the Festtage 1997; Mar 28

THEATRE
Berliner Ensemble Tel: 49-30-28408
● Der Aufhaltsama Aufstieg des Arturo Ui: by Brecht. Directed by Müller and performed by the Berliner Ensemble. Tha cast includes Beyer, Bonn and Broich; Mar 28

■ CAMBRIDGE

EXHIBITION
Fitzwilliam Museum Tel: 44-1223-332900
● Masterpieces of Japanese Printmaking - Part I: display of Japanese printmaking with a ranga of artists represented, including Harunobu, Kiyonaga, Utamaro, Hokusai, Hiroshige, and Kunisada; to May 11

■ DRESDEN

EXHIBITION
Albertinum Tel: 49-351-49140
● 4x1 Im Albertinum: exhibition featuring works by four contemporary artists: Raffael Rheinsberg (Germany), Nan Hoover (US), Maria Lassing (Austria) and Luc Tuymans (Belgium); to Apr 8

■ GENEVA

EXHIBITION
Musee d'Art et d'Histoire Tel: 41-22-3114340
● Morceaux choisis, Céramique de Grande Grèce: display of ceramics from Greece, featuring 150 fragments of vases dating from the 5th century BC up to the 3rd century AD. Many of the works on display feature images of Classical heroes including Hercules, Hector and Achilles; from Mar 26 to Jul 20

■ LONDON

AUCTION
Sotheby's; Parke Bernet & Co. Tal: 44-171-4938080
● Applied Arts from 1880: highlights of the sale include a rare-writing table by Pierre Chareau, dating from the 1920s, four original Art Nouveau watercolours by Eugèna Grasset and silverware from the Wiener Werkstätte; Mar 27

CONCERT
Barbican Hall Tel: 44-171-6384141
● Johannespassion: by Bach. Conducted by Richard Hickox and performed by the City of London Sinfonia. Soloists include soprano Rebecca Evans and bass Paul Whelan; Mar 28
Queen Elizabeth Hall Tel: 44-171-9210600
● Mass in B minor: by Bach. Conducted by James Gaddam and performed by the London Orpheus Choir and tha London Orpheus Orchestra. Soloists include soprano Julie Kennard, tenor Wynford Evans and organist Alistair Young; Mar 27
Wigmore Hall Tel: 44-171-9352141
● Mandelring Quartet: the quartet performs works by Goldschmidt; Mar 27

■ NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● No Ordinary Mortals - The Human (and not-so-human) Figure in Japanese Art: exhibition covering Japanese art from prehistoric times to the present day, featuring paintings, sculptures, ceramics, textiles, lacquers and prints. Several newly restored paintings will be on display; to Oct 5

OPERA
Alice Tully Hall Tel: 1-212-875-5050
● L'Amora dei Tre Re: by Montemezzi. Conducted by Gary di Pasquasio, performed by the Teatro Grattacielo. Soloists include Margaret Cusack, Louis Otley and Philip Cokorinos; Mar 26
Metropolitan Opera House Tel: 1-212-362-6000
● Aida: by Verdi. Conducted by Adan Fisher, performed by the Metropolitan Opera. Soloists include Sharon Sweet, Barbara Dever and Michael Sylvester; Mar 28

■ OXFORD

EXHIBITION
Ashmolean Museum of Art & Archeology. Tel: 44-1865- 278000
● Drawings by the Carracci from British Collections: this loan exhibition presents a selection of 100 drawings by tha Bolognese artists Lodovico (1555-1819), Agostino (1557-1602) and Annibale Carracci (1560-1609). The exhibition looks at the cross-fertilisation of ideas between the three artists, at the central importance of life drawing to their art, at the inventivaness of Annibala in particular, and at the graphic explorations of all three Carracci in drawings and prints; to Mar 31

■ PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Maria Joao Pires, Augustin Dumay, Gérard Caussé, Jian Wang and Vincent Pasquier: the pianist, violinist, viola player, cellist and double-bass player perform works by Schubert. Part of tha Schubertiada; Mar 26

EXHIBITION
Musée d'Orsay Tel: 33-1 40 49 48 14
● Théophile Gautier, la critique en liberté: exhibition examining the life and times of art critique Gautier and featuring work by artists who were his contamporaries, including Delacroix, Manet and Moreau; to May 18

■ PHILADELPHIA

DANCE
Philadelphia Museum of Art Tel: 1-215-763-8100
● Rodin and Michelangelo: A Study In Artistic Inspiration: exhibition featuring over 50 drawings and sculptures illustrating the influence of Michelangelo on the French sculptor; from Mar 27 to Jun 22

EXHIBITION
Philadelphia Museum of Art Tel: 1-215-763-8100
● The Hands of Rodin: A Tribute to B. Gerald Cantor: display of 60 sculptures in bronze and plaster, several of them unique casts, including both figural sculptures in which hands play an important rola and sculptures of hands alone by the French artist; from Mar 27 to Jun 22

■ STOCKHOLM

CONCERT
Stockholms Konserthuset Tel: 46-8-7860200
● Filharmonikerna: with conductor Fabio Luisi and baritona Andreas Schreibner perform works by Schubart, Webern, Mahler, Berio, Brahms and Schönberg; Mar 26

■ THE HAGUE

JAZZ & BLUES
Dr Anton Philipszaal Tel: 31-70-3607927
● Hans Dulfer: performance by the tenor-saxophonist accompanied by his band; Mar 26

■ VENICE

CONCERT
Basilica di San Marco Tel: 39-415225205
● Requiem: by Verdi. Conducted by Isaac Karabtchevsky, performed by the Orchestra a Coro del Teatro la Fenice; Mar 26

Listing selected and edited by ArtBase The International Arts Database, Amsterdam, Tha Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

WORLD SERVICE

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COMMENT & ANALYSIS

New generation struggle

Big industrial companies want changes to the wholesale power market to reduce electricity prices, says Simon Holberton

Seven years after the privatisation of the British electricity supply industry, dissatisfaction among big industrial users remains widespread. Critics allege the system is still controlled by a handful of large generators which use their dominant market power to keep prices high.

They also feel their concerns are being ignored by Professor Stephen Littlechild, the electricity regulator. He recently backed the Electricity Pool, the body which administers the wholesale electricity market in England and Wales, in rejecting proposals to involve big users of electricity in setting electricity prices.

The exasperation of industry is reflected by Mr Ian Blakey, chairman of the energy intensive users group, a lobby representing the cement, glass, metals, paper, ceramic and chemical industries.

"How many times do customers have to call for reform before action is taken to break up the pool monopoly and bring competition and lower prices to this sector?" he asks.

The market for electricity is like no other commodity. Electricity cannot be easily stored. Moreover, demand and supply have to be matched continuously or else power surges or deficiencies will cause electrical appliances to malfunction.

Since privatisation, the task of matching supply and demand has fallen to National Grid, the company which owns the transmission system in England and Wales. It acts as agent for the pool, matching expected demand with the least-cost way of generating it by calling for bids from generators for each of the 48 half-hours in a day.

To determine the least-cost method, the company asks generators on a day-ahead basis:

- At what price are you prepared to generate?
- How much generating equipment, or capacity, will you have available to generate?

With this information National Grid ranks the bids for each period from the lowest to highest cost; the price for that half hour's electricity is set by the last bid needed to meet expected demand.

The operation of the pool, however, aims to achieve two other objectives: to ensure security of supply; and to encourage sufficient power stations to be built to meet future needs.

The first objective is achieved by paying generators to keep plant available for generation – even though forecasts suggest it will not be needed. The second is met by paying generators more than the minimum needed to match supply and demand to encourage investment.

These payments are passed to consumers in the form of higher prices for each half-hourly period. Capacity payments to attract potential entrants into the England and Wales market have added £1bn to electricity bills since privatisation – the generators received £275m in 1995-96 alone.

The sums involved in rewarding generators for keeping unused plant available are also significant – £900m since 1990.

> Big consumers such as Imperial Chemical Industries believe substantial savings could be made if there were incentives to curb demand

Big consumers of electricity such as Imperial Chemical Industries believe substantial savings could be made if there were incentives to curb demand, rather than maintain supply for all eventualities as the existing system seeks to do.

They wanted to establish a "load management agency" for the pool which would reward big companies for managing their short-term energy consumption by switching off during periods of peak demand.

ICI has pointed out that before privatisation load management took up to 2,000MW of peak demand off the system. The mechanism for load management now in use takes only between 100MW and 200MW of peak demand off the system.

One reason for this is the way the existing system operates: it offers payments to big industrial consumers which undertake to reduce their demand if prices reach particular levels – not for actually reducing it. Mr D.J. Bone of Impkemix Energy, an ICI subsidiary, says this has encouraged companies in the scheme to apply for payments by offering to cut their usage but only if prices reach an unlikely level.

Ms Lisa Waters, economic adviser to the Energy Intensive Users Group, advocates a bidding system which rewards big users for reducing demand rather than simply promising to. "This would give competition to generators and lop prices. I can't think of any way it would lead to higher prices."

The generators argue – and Prof Littlechild last week agreed that the big consumers' approach is flawed. Instead of leading to lower prices, a load management agency would simply transfer large payments to big consumers for coming off the system – paid for by other consumers in the form of higher prices.

Prof Littlechild agrees – and also argues that competition in generation is growing, with new generators increasingly setting the price. In December, for example, the electricity price was set by Eastern Group for 21 per cent of the month.

Professor Colin Robinson, Professor of Economics at Surrey University and editorial director at the free market Institute of Economic Affairs, believes the only sensible way forward is to refer the pool and the generators to the Monopolies and Mergers Commission.

"It is a hard issue for the Commission to study – it is such a complex issue," he says. "But there is a case for an independent review of the pool and the structure of generation.

"There has been a lot of new entry [into generation] since but it has not had the effect you would expect. The two major generators still have dominant power. While losing market share they have retained the power to set prices."

Prof Littlechild resists calls for an immediate inquiry into generation, arguing "it makes sense" to see how the market develops in the next couple of years. "We want to speed up new entry to challenge the existing generating companies."

He leaves no doubt, however, that he is open to reform longer term.

"We have only half a market, with some limited role for demand-side bidding," he says. Moving further "would need a mechanism for suppliers to say how much power they wanted and at what price. There is increasing evidence that such a market is possible."

Mr Neil Bryson, chairman of the pool, says he is prepared to consider large-scale reform – later in the year. The large users view this offer with scepticism.

"It's just impossible to believe that the initiative Mr Bryson wishes to pursue will be approved by pool members," says Ms Waters. "I doubt that pool members will agree to break up a monopoly that has served them so well."

LETTERS TO THE EDITOR

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Russia ignored public's interests

From Mr Christopher J. Speicher.

Sir, The quote of Mr Boris Fyodorov, Russia's former finance minister, exemplifies the careless nature in which reform and the privatisation of state-owned enterprise was allowed in Russia ("Return of the reformer", March 19). To imply that "people don't really care if someone steals Norisk Nikel or Gazprom" holds deep implications.

- If the public knew such huge enterprises were being sold to small groups of individuals and organised crime units, which it is estimated now control about 50 per cent of the economy (Forbes Magazine, December 30 1996), their reaction may have come much sooner in the form of election outcomes this past summer and protests in the street as we will see this week.
- The lost proceeds of these "nomenclatura" privatisations could have provided the requisite safety net required to implement the still remaining tough reforms in housing and utilities.

The horse is already out of the barn and now the economic farmers of Russia are asking that the barn door be closed. The required medicine of renationalisation, demonopolisation, and then honest, open privatisation of these ill-gotten enterprises is both unpopular among western governments which are underwriting the reform process and fear any slowdown or reversal, or the small group of very powerful business people who will fight with all their political and economic might. Furthermore, most valuable assets of these enterprises have been sold over and over again in closeknit arrangements that would make it almost impossible to reassemble them.

It is evident by the comments of Mr Fyodorov that no one has been watching out for the best interests of the Russian public.

Christopher J. Speicher,
1710 Madison Avenue,
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Despair, not stability, in Germany

From Mr Peter Frankel.

Sir, When I read the interview with Gerhard Schröder ("Mover and shaker", March 17), I was extremely pleased that a German of his standing finally accepted the fact that the whole Emu concept would not work.

I was also surprised at the reply of Mr Klaus Kinkel, the federal minister for foreign affairs (Letters, March 18). He spoke of "a Europe-wide area of stability in which the German culture of stability is adopted by our partners ...".

What stability is Mr Kinkel talking about? The almost 5m unemployed? The area of instability created in 1989 by the wrong decision on currency exchange with the former East Germany? The fact that all Germans are still obliged to pay for east Germany in addition to their tax? The weakening of the D-Mark against the dollar and against sterling? And a social system so expensive that, unless Germany is prepared to change it, instability will grow day by day?

On my last visit to Germany I found, in some areas, a feeling close to despair at the high social cost Germany has created in its good years. However, Mr Kinkel clearly confirms the suspicion many people have that Germany wants a German Europe, and his comments indicate that.

I wonder what Mr Kohl will be saying now.

Peter Frankel,
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Make CAP fit future

From Mr Robert Sturdy MEP.

Sir, Lionel Barber hit the nail on the head with his excellent article on European agricultural policy ("A harsh message reaches Mr Cap", March 10).

Now, for the first time, all the internal and external pressures are coming together, forcing a fundamental rethink of the Common Agricultural Policy. With the European Union needing to hold its own in world trade talks, take on the challenge of eastern enlargement and observe budgetary rigour, we cannot shirk overhauling the CAP.

Coming on top of all this, the BSE crisis is forcing the pace of change. Speaking in the European Parliament's BSE debate last month, Jacques Santer committed himself to the cause of CAP reform – including key elements of simplification and democratisation. In drafting parliament's report on this year's tight farm price round, I have little margin of manoeuvre; we must take real steps towards making the CAP fit the future.

Robert Sturdy,
Conservative agricultural spokesman in the European Parliament,
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Expensive advice that increases the cost of doing business

From Mr Martin E. Simons.

Sir, The fabulous profits of investment banks, illustrated by Goldman Sachs' first-quarter 1997 pre-tax profit of $905m (£569m) ("Goldman Sachs profits jump to $905m", March 19) which is equivalent to an annual rate of £2.3bn with modest capital or 62 per cent of BP's record 1996 pre-tax profit of £3.7bn, call for comment.

According to City of London estimates, £3bn, or 0.5 per cent of gross domestic product, is being paid as 1996 bonuses to a few hundred bankers, traders, fund managers and others.

The main reason, understandably not reported by Tracy Corrigan, your New York correspondent, are preposterous fees charged by investment bankers and other advisers which appear to be foisted on industry and the likes of provincial UK institutions like the Halifax and Woolwich, many of which seem mesmerised by their princely advisers.

Outsourcing inevitably fuels the fees fever. Once key in-house skills are lost, companies are at the mercy of their advisers. For 1996 BP's audit fees of £8.1m were up 4 per cent, consultancy, tax advisory and sale of business fees were £7.8m, up 41 per cent, while the costs of other leading accounting firms at £32m, were up £10m, 45 per cent.

Concern is rightly being expressed about the inflationary impact of the Labour party's proposed windfall tax. Similarly, £3bn of City bonuses, some of which go on year after year, increase the cost of doing business.

It is time to call a halt.

Martin E. Simons,
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Compact to hard disc

Alice Rawsthorn on record companies' plans to spin off into online sales

There will come a time when instead of going to a local record store to buy the latest album by U2 or the Chemical Brothers, it will be possible to order it by modem before downloading it to a personal computer.

This procedure is already feasible, but downloading takes a long time, and the sound quality is often erratic. These problems should be resolved soon and, within a few years, purchasing albums and singles in the form of digital signals via a computer could become as commonplace as picking them up in a shop.

The music industry is preparing for an era in which a significant proportion of its products may be sold directly to consumers by digital means, but there are several obstacles.

One is that copyright law does not yet protect music which is sold online. The second hurdle is technical. How can record companies and their artists prevent the unauthorised digital distribution of their music?

An important step was taken towards resolving the legal problem last year at a meeting of the diplomatic conference of the World Intellectual Property Organisation.

Agreements were concluded to extend the rights of record companies and artists into the digital domain, and to make it illegal to produce or sell unauthorised versions of the encryption systems with which the industry intends to identify its digital signals.

These agreements must be adopted as national legislation by at least 30 countries belonging to the organisation. Similarly, the European Commission must ensure that they are accommodated by its laws. This should be relatively straightforward for most countries.

In the UK for example, the necessary changes can probably be implemented through subsidiary legislation. Other countries may have to make more substantial reforms. Even so, the music industry seems confident that the process could be completed before the end of this year.

"Can we get 30 countries to ratify it this year? I'd hope that we can," says Mr Nic Garnett, director-general of the International Federation of the Phonographic Industry, the organisation that represents the world's record companies. "I don't see that there'll be any serious problems."

Developments in store: you may be downloading U2's next album *Anton Corbijn*

The next hurdle, the technical one, threatens to be more difficult. There are three issues to be addressed:

- Devising an encryption system which will enable record companies to encode, and later decode, their digital signals.
- Establishing digital interfaces to transfer music directly from the archive of one company to that of another.
- Working out a way of embedding a digital signal within the music to identify it and its copyright owner.

In theory, once these systems have been introduced, it should be possible for record companies to identify whether a piece of "digital music" is authorised, and who owns the rights to music in digital form.

Similarly it should be feasible to control access to it, and to ensure that the copyright owner is remunerated whenever the music is used.

To achieve this the same systems must be adopted simultaneously by the entire music industry. "We really can't end up with a situation where the poor old consumer has to deal with 29 different encoders," says Mr Garnett.

The federation is co-ordinating the development of an industry-wide system in conjunction with the European Commission's Esprit programme, which is sponsoring part of the research.

Finding a suitable encryption system should be relatively simple, as similar technology is already widely used by banks, government departments and other institutions which need to control access to their data.

TNO Laboratories, the Dutch research centre, has been commissioned to study various systems and to assess which would best meet the music industry's needs. It started work on the project last September and is expected to complete its analysis in March next year.

The federation is also examining ways of establishing a digital interface which, like the encryption system, will be adopted across the industry. At present most record companies store their music in the form of tape, which tends to deteriorate and, in some instances, is already in poor condition. Several companies have started to digitise their archives, and the IFPI is anxious to ensure that they do so using a common interface.

The aim is to find a means by which music can be digitally transfered from one record company, or copyright owner, to another if, for example, Warner Bros wanted to use a song owned by a PolyGram subsidiary for a movie soundtrack album. The interface will also have to accommodate any new sound carriers likely to come on the market in future, notably the audio version of digital video disc.

Mr Philippe Person, technical projects executive at the federation, says the likeliest solution is to feed the information into the laser-beam recorder used to make the notches in the CD which will eventually be translated into music by the CD player.

Research into this issue is under way, as is the development of an embodied signalling system which will enable a piece of music, and its copyright owners, to be identified. Person says this system is likely to involve adding an identification signal to the music at the same time as it is recorded in the studio.

Six companies have developed systems which have been submitted to TNO Laboratories for assessment. TNO will scrutinise each system and report back to the IFPI which will then choose the one best suited to equip the music industry for its entry into the digital domain.

COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday March 25 1997

Krupp meets its match

Never underestimate the power of a German consensus. That is the lesson of Krupp's decision yesterday to abandon any thoughts of taking over Thyssen, one week after launching an overtly hostile takeover bid.

Officially, the talks between the two on a steel joint venture are going so well that the wider bid can safely be dropped. Both sides say the steel merger will provide 75 per cent of the synergies expected from a full bid, without the risks of such a debt-laden takeover.

But that is only part of the story. Krupp's chief executive, Mr Gerhard Cromme, has been taught a sharp lesson in business realpolitik. From the moment he found himself facing demonstrating steelworkers behind a wall of riot-police shields the scale of the opposition has been clear.

Politicians and trade unionists proved largely unanimous in their criticism of the scheme; few business leaders could be found to support it. Thyssen's condemnation of the bid as "Wild West tactics" has proved damningly indelible. Americans might associate their frontier years with individual derring-do; to Germans the period signifies a deeply undesirable state of lawlessness.

The lesson of this episode, and of the government's climb-down earlier this month in its dispute with the coal-miners, is that Germany is not ready to embrace confrontational change. Despite a generational shift in German business and Chancellor Helmut Kohl's rhetoric about the need to unleash entrepreneurial energies, there is a deep need for consensus and compromise. At the end of this process, there must be no outright winners and losers.

Anglo-Saxon investors too often expect Germany to make an abrupt shift to a different model, in which there are profits to be made from picking the companies that will unambiguously gain from change. In practice, there will be few such clear-cut victories.

It is also wrong, however, to conclude that Germany stands immobile in the face of the challenge of globalisation. In both the steel and the coal examples, change is on the way – relentless, if slower and less decisive than reformers would wish.

Still, the abiding memory of the Krupp bid will be the haste with which Mr Cromme settled for less than he had hoped. The idea of an open market for corporate control has received a clear set-back.

Yet no comparable mechanism to accelerate corporate restructuring is available. The big banks, which would once have played this role, have lost confidence and clout. In this power vacuum, the planned joint venture in steel between Krupp and Thyssen may represent all that can be expected: the grudging acceptance of the second-best.

EU defence

The European Economic Community, whose 40th birthday is being celebrated in Rome today, arose from the ashes of the European Defence Community, torpedoed by the French parliament in 1954. It is in a way fitting, therefore, that France and Germany should have chosen today's meeting of foreign ministers for a fresh drive to bring defence policy within the scope of the European Union, the broad political structure that has been built up with the EEC as its core.

The argument is a familiar one. A common European defence may have been premature in the 1950s, when French suspicions of Germany ran deep and European defence was taken care of by the US. But today working together, even in the military field, has become second nature to France and Germany; while in the post cold war world US willingness to deal with all Europe's security problems cannot be assumed.

The EU is already empowered, by the Maastricht treaty, to "request" implementation of its decisions and actions "which have defence implications" by the Western European Union (WEU), a defence body whose ten full members also belong to both the EU and the Atlantic alliance. Moreover, elaborate arrangements have already been made to enable Nato assets to be used by "combined joint task forces", under WEU direction. In operations which European allies might undertake without direct US participation. The French and Germans would like to strengthen these arrangements by making WEU explicitly an arm of the EU.

So far, so logical. But the objections to moving fast in this direction are also well known. On the one hand, WEU is among other things a mutual defence pact, and the four neutral EU states are not ready to join it as full members. On the other, at least one member state (the UK) is unwilling to endow the EU with competence in the defence field for fear of weakening Nato. Nor is this an area where a Labour government would be likely to alter the UK position before the revised Maastricht treaty has to be signed at the end of June.

The most France and Germany can hope, therefore, is that the Maastricht language will be slightly strengthened, as in the current Dutch draft which refers to "the objective of gradual integration of the WEU into the Union", and says that all EU members will be "entitled" to join in the so-called "Petersberg tasks" of WEU such as peacekeeping. Beyond such moves, the search for an EU defence dimension will not mean much without a more effective common foreign policy.

Oscar's rewards

The film stars who gushed their thanks from the podium at last night's Oscars had much to be grateful for. The changing nature of the celebrity business makes it harder than ever to seize the world's attention – but much more lucrative.

It is relatively easy to become a small-scale celebrity, famous in a restricted market but largely unknown elsewhere. Indeed, the proliferation of narrow-cast media outlets now allows for many forms of specialised celebrity – people who are internationally famous for their tattoos, say, or their victories on the professional windsurfing circuit.

The fragmentation of mass media allows easy creation of this limited notoriety. Simultaneously, it has made it harder to become lastingly famous to a global audience – perhaps harder than at any time since the beginning of the movie era. Anyone can be a little bit famous; but precisely for that reason, real fame is correspondingly harder to acquire.

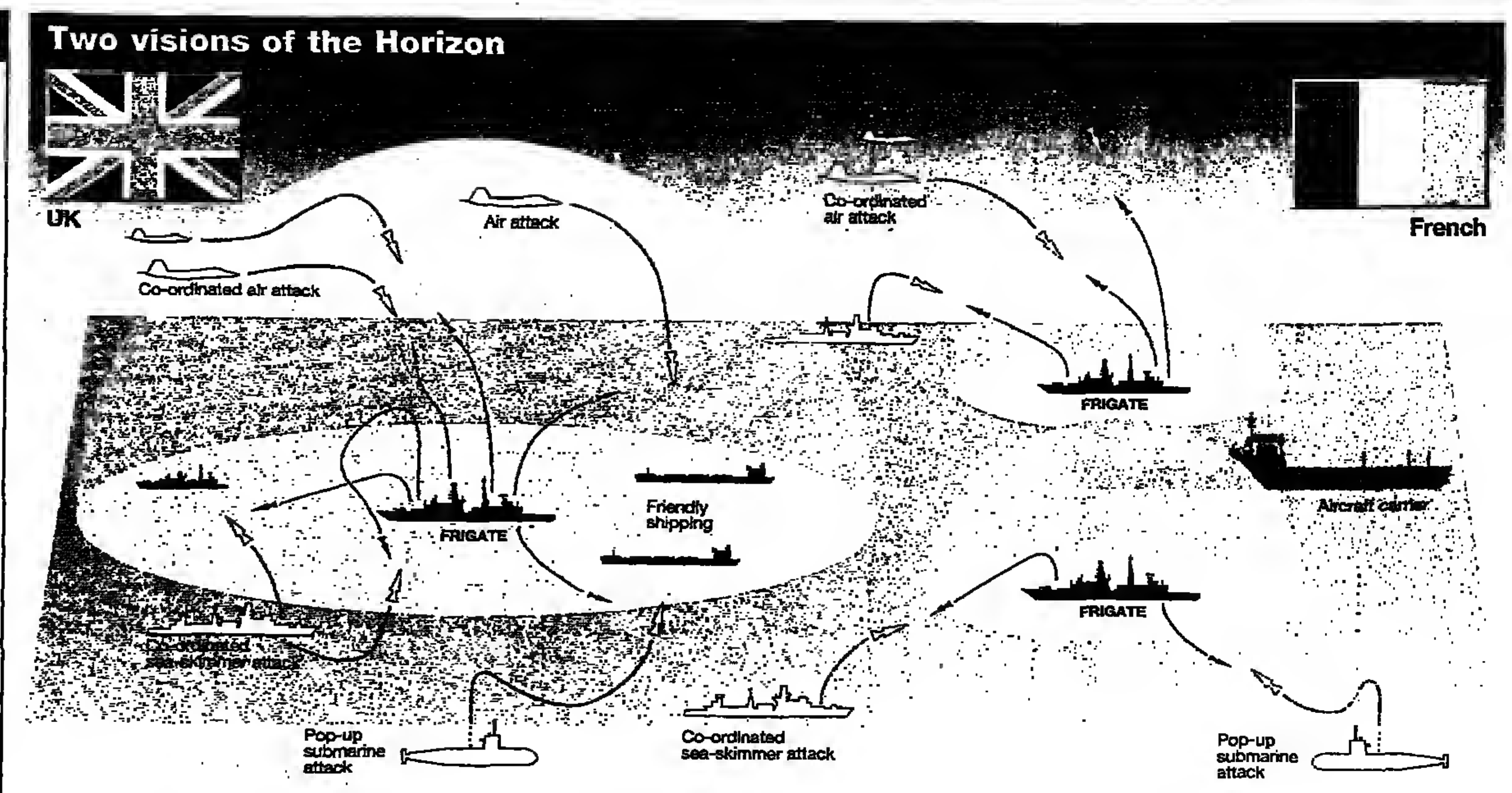
The relatively few actors who achieve this feat can expect ever higher rewards for their celebrity – up to $20m for a film performance that will take only a few weeks to complete. This scale of payment does not represent the wages of talent. It does not correlate particularly well with skill. Instead it represents the economic rent of a share of the collective consciousness.

Hollywood is at once the creator and the prisoner of this phenomenon. Individual studios and producers struggle to create fame for actors in their latest films. Once celebrity has been achieved, the industry is trapped by it, paying ever more money to a relatively small number of "bankable" stars, and allowing their caprices undue influence in the selection and creation of film projects.

The industry strives to escape this trap. Independent producers search for unknowns; big studios plump for special effects or animation. In these approaches, economic rents accrue to the producer rather than to the star.

This is always likely to be a minority approach, however. The Hollywood ethos – big budgets, big risks, big potential profits – makes it hard to do without stars. Indeed, as special effects get more complicated and expensive, backers demand a star to justify the investment.

The Oscar ceremony encapsulates Hollywood's relationship with celebrity. Each year, a few newcomers are admitted as candidate members of the truly famous; but the spotlight shines brightest on those who have already joined the club. In economic terms, the most heartfelt thankyou last night was surely the unspoken one: "Thank you for knowing who I am."



Out of formation

Differences over naval strategy between three countries threaten to sink the Horizon frigate project, says **Bernard Gray**

HMS Sheffield still haunts the Royal Navy. Graphic images of the hulk of the burnt-out destroyer, hit by an Exocet missile during the Falklands war as its captain talked to London on the telephone, are etched into navy memories.

Some of those young commanders in the Falklands campaign of 1982 are now the admirals charged with designing a replacement for the navy's Type 42 destroyers, the class of ship to which Sheffield belonged. They are almost obsessed with ensuring that the Sheffield Incident could never happen again.

The admirals want a ship with a radar able to track any moving target at a range of 50 miles, computers powerful enough to track dozens of targets, and a missile defence system fast enough to shoot down simultaneously eight supersonic sea-skimming successors to Exocet.

The only snag is cost. With the electronics of modern warships rivalling those of fighter aircraft in complexity, the cost of developing the combat system the admirals want has become prohibitive for a small nation such as the UK working alone.

As with fighter aircraft, Britain has chosen to throw its lot in with other European countries with Project Horizon, a three-nation programme designed to produce 12 such frigates for the UK, six for Italy and four for France, at a total cost of £7bn.

But in spite of the backing of governments and industry in all three countries, Horizon is not working, because the partners simply do not agree on what the ship should be able to do.

The UK, with its experience in the Falklands, wants a ship capable of defending a convoy spread over a wide area. France, by contrast, wants escort ships to defend specific targets – such as the Charles de Gaulle, its new nuclear-powered and hideously expensive aircraft carrier.

These different operational philosophies put Britain and its two partners at loggerheads. It is much harder and far more expensive to develop the kind of system the UK says it wants than the more traditional Franco-Italian escort. In part, this is because the missiles a French ship would be required to hit would be heading more or less straight for it. All such a French defending Horizon frigate has to do is fire a missile back along the same line to be reasonably certain of hitting the target.

The British ship, by contrast, would have to hit missiles aimed at other ships and often moving at high speeds and at right angles to the Horizon frigate. Firing across the line of such a missile gives just a split second to hit the target.

Co-ordinating such a shoot-out requires a highly sophisticated radar, lots of computing power and a very capable missile – all of which are more expensiva than the system France and Italy have in mind. With defence budgets under severe pressure, neither country is prepared to sanction a ship that is more sophisticated than its needs, while the UK will accept nothing less than the full specification.

If agreement on the weapons system is not reached soon, Horizon is in danger of sinking altogether. To avoid the embarrassment of having an aircraft carrier that cannot sail for lack of escort ships, France will need to start building air defence frigates soon. Yet with no agreement with the UK in sight – and the possibility of a defence review in Britain if Labour wins the general election – the UK may delay further, and time could run out for the international project.

The current principal sticking point is the main weapons system, codenamed Paams, the Principal Anti-Air Missile System. Development of Paams has been separated from work on design of the Horizon frigate, which will be put out to tender in each country. However, the complex missile system has to be built by a single industry consortium. This split has caused delays and made co-ordination of the programme extremely difficult.

Paams is based on a Franco-Italian radar and missile combination. This has already been developed by the two countries as part of a family of surface-to-air missiles, led by Alenia, Thomson-CSF and Aerospatiale in the Eurosam consortium.

The UK is broadly happy with the Eurosam missile proposed for Paams, requiring only modest upgrades. But to the great irritation of its partners, the UK rejected the Italian Empar radar before it even signed up to the project, in favour of what it says is a more capable British radar – Sampson, developed by Siemens Plessey.

There is also contention over the battle computers and command and control systems that would interpret the radar images and allocate missiles to targets. The UK wants much more computing power and, while the three countries could simply agree to differ on this, such divergence rapidly destroys the point of a common programme.

The political desire to appear united on the programme could lead to the different weapons being called Paams and Paams Plus. But in reality two systems would be developed under the aegis of a common programme, with all of the cost that implies. There is also no agreement on where those costs should fall.

Industrial problems have also been caused by attempting to fit Britain into the Eurosam programme which is under way. Britain has agreed to pay France and Italy well over £100m for development work already done on Paams once the project starts. But that money will go to the French and Italian governments, which have funded the development, rather than Aerospatiale or Alenia. As a result, these companies have little incentive to find ways to involve GEC-Marconi and British Aerospace of the UK in the programme, or to improve the system at low cost to meet British concerns.

Indeed, these companies are worried that if Paams proceeds, the British will take the development work they have already done, improve on it and offer their own system in competition in the international market. It is small wonder then, that French and Italian companies are not rushing to make room for their British counterparts in Paams.

With negotiations over the capability, funding, and industrial structure of Paams deadlocked, the governments have stopped funding of the whole Horizon project. Companies bidding for work on the ship are having to fund design teams while they wait for the Paams problem to be resolved. Lower-tier suppliers fear this pattern could carry on for years, with ship suppliers left in limbo every time Paams hits a new snag.

France and Italy had already done some preliminary design work on the Horizon ship before the UK joined. As with the missile system, it is proving difficult to find work on the programme for British contractors that matches the large number of ships Britain intends to order. Continental companies rub their hands at the discomfort this causes the UK Ministry of Defence which frequently says it wants to move away from fixed work shares, but which also has an industry lobby to placate. Some smaller British companies, frustrated at the delays, are thinking of pulling out.

Differences in procurement philosophy are causing other difficulties. DCN, the state-owned and heavily loss-making French shipyard, will bid for elements of Horizon construction against private yards such as Yarrow, owned by GEC.

British companies also grumble that French and Italian companies do not suffer as a result of delays because of their close links with their defence ministries – other work is put their way. In the UK, the adversarial system which requires defence companies to compete for contracts at arm's length means they often do not even know what is going on.

Yet for all the problems, the imperatives to fix Horizon remain extremely strong. Governments can, and have, pointed to the programme as an example of European co-operation. They want to continue to do so.

Industry needs the work, which could have wide application: some of the technologies in Paams could easily form the building blocks of a European ballistic missile defence system, for example. However, the complexities of three countries running two project offices to meet two operational needs may simply be too much.

If Horizon does collapse as a result, the UK could be forced into manufacturing US destroyers under licence – contingency plans have already been made to study US ships. But this would severely limit research and development opportunities for British industry, and would see Europe's defence manufacturers fall further behind the US. If France and Italy fell back on a more modest bilateral programme, they too would fall behind technically, and buy more expensive ships with a lower specification.

Both governments and industry are keen to avoid that fate, but no one has a clear idea how it can be done. "This thing makes the Eurofighter look easy," said one exasperated defence executive yesterday. "If anyone knows how to fix it, they should give me a call."

· OBSERVER ·

Hansenne hands over

■ Another plum United Nations job is coming up for grabs. Observer hears that Michel Hansenne, director-general of the International Labour Organisation, will not stand for a third term when his mandate expires in two years.

Hansenne, a former Belgian labour minister, informed the ILO's governing body of his decision last week. Colleagues say his timing may have been aimed at ensuring the ILO is not left to choose from second-rate candidates after other UN posts have been filled.

After all, Irish president Mary Robinson – tipped for the ILO job last year – now stands a good chance of becoming UN human rights commissioner following José Ayalo Lasso's appointment as foreign minister of Ecuador. The top job at the World Health Organisation is also attracting heavyweight contenders; Gro Harlem Brundtland, former prime minister of Norway has been widely tipped for the job – though UN secretary-general Kofi Annan is said to want her to work as his deputy in New York.

Whether someone of similar standing comes forward to head the ILO remains to be seen. The list of possible inside candidates is headed by Kari Tapiola, Hansenne's Finnish deputy.

Old boy

■ Meanwhile Boutros Boutros Ghali, supported by France in his vain attempt to get another term as UN secretary-general, looks set for a soft landing at the head of "La Francophonie", the collection of 49 French-speaking countries. The job is due to be created in November at the next summit of the Francophonie in Hanoi. No one seems to doubt that Boutros will get it – so long as Egypt, where he was once a foreign affairs minister, is prepared to nominate him.

King Kirch

■ News that Leo Kirch is negotiating a DM1bn bank credit line has stirred renewed interest in the affairs of Germany's premier media mogul.

Rumours that the privately held Kirch Group was in a tight spot have been circulating for some time; certainly long before Rupert Murdoch – another media mogul who knows about flirting with financial disaster – decided earlier this month that British Sky Broadcasting would not take a stake in DF-1, Kirch's costly pay-TV venture.

But the 70-year-old Kirch is adept at getting out of difficult situations. Twice in his colourful career – which began with the distribution rights to Fellini's *La Strada* – Kirch has found last-minute solutions; the first time German state television took a block of programmes from him, the second time shopping tycoon Otto Beisheim bought a chunk of Kirch's programme library. The latest episode looks worth watching.

Half life

■ More fall-out from Sweden's plan – bitterly criticised by industrialists – to scrap its nuclear power stations. Three private-sector directors are stepping down from the board of Vattenfall, the state power utility at the eye of the storm. They are being replaced by more malleable types, like Lars Rekke, under-secretary of state at the industry ministry, who takes over as chairman.

But even before the remodelled board could meet for the first time, it lost one new recruit. Kjell Nilsson, chief executive of the mining and rubber group Trelleborg, said yesterday that he had decided not to take up his Vattenfall directorship because he did not want to be a "whipping post". Industry minister Anders Sundström was more explicit: he said Nilsson told him he had been "forbidden" from taking the job by Trelleborg's board.

Chew on this

■ Deutsche Bank chief Hilmar Kopper has never been able to live down using the word "peanuts" to describe small traders' losses when the Schneider property empire collapsed a few years back. Around 1,000 Thyssen workers – who fear their jobs could be lost in the aftermath of the Deutsche Bank-backed bid by Krupp – yesterday hurled nuts at the bank's Düsseldorf branch.

Although the hostile bid was abandoned yesterday, between 30,000 and 80,000 workers today plan to demonstrate in front of the twin glass towers of Deutsche Bank's Frankfurt headquarters – no matter how friendly the talks on merging the companies' steel operations. Around 200 buses, 100 trucks and a motorbike cavalcade are expected to cause traffic chaos.

This kind of disruption is rare in Germany's orderly financial capital, though things could change once the new European Central Bank opens its doors. As the normally reticent Frankfurter Allgemeine Zeitung newspaper suggested yesterday, the ECB could be a magnet for protesters if Europe's high unemployment persists.

The Financial Times

100 years ago

The Eastern Question
Although the Eastern Question is still with us, it has ceased to exercise its old disturbing influence. The Greek force under Colonel Vassos remains in Crete, and pig-headedly refuses to budge at the command of the Powers; the Cretan insurgents angrily decline to accept autonomy, and demand annexation by Greece; the coast of Crete is blockaded by the combined fleet of the six Powers; and, finally, the Greek and Turkish armies are still facing each other and growling mutual defiance across the Macedonian border. All this looks very terrifying on paper, but to those who have watched the course of events, the situation is gradually assuming more of comedy than of tragedy.

50 years ago

Italian Labour For France
An agreement has been signed in Rome by Count Sforza and the French Labour Minister, M. Ambroise Crozat, regarding Italian labour for France. According to the agreement, Italy will send during 1947 200,000 labourers to France in groups of 17,000 a month. France will give Italy 150kgs of coal per day per Italian miner.

FINANCIAL TIMES
Tuesday March 25 1997

Russian statisticians accused of manipulating GDP figures

By Chrystia Freeland in Moscow

Government statisticians have been manipulating figures to create the impression the Russian economy has begun to grow, according to a group of independent economists.

Earlier this year, Goskomstat, the state statistics committee, reported that year-on-year gross domestic product had risen by 0.1 per cent in January and 0.9 per cent in February – bringing hope that Russia's decade-long recession was coming to an end.

Mr Boris Yeltsin, the Russian president, seized on the figures as a sign that five years of market reforms were beginning to yield growth.

However, according to Russian Economic Trends, the monthly report of an influential European Union funded think tank based in Moscow, the Kremlin's statisticians boosted their estimate of the size of the hidden economy for this year, but left the 1996 figures, which they were using for comparison, unchanged.

Had Goskomstat not done this, Russian Economic Trends calculates they would have come up with a decline of about 6 per cent in GDP in January. "This is a perpetuation of the Soviet tradition when ... for political purposes, information could be falsified," said Mr Andrei Poletayev, an economist at the Moscow-based Institute of World Economy and International Relations – an independent academic institution – who discovered the statistical sleight of hand.

Having altered their methodology to massage the poor January performance, according to some analysts, the state statisticians were forced to change their calculations again when the economy appeared to rebound too strongly in February.

A separate report by Renaissance Capital, a Moscow-based investment bank, said: "Based on the new methodology, industrial production would have increased by 5 per cent in February." To make the figure more credible, Renaissance Capital speculates "the methodology was changed for a second time to arrive at the 'realistic' estimate of 0.9 per cent".

Mr Roland Nash, an economist at Renaissance Capital, argues that the discovery of the statistical juggling – which he speculates is doe in part to leaks from Goskomstat economists angered at being required to massage their figures – is proof that Russia is becoming a more open society.

Goskomstat denies having changed its methodology. The economists who accuse the agency of fiddling the figures, say its estimates of the size of the hidden economy may be accurate but quarrel with its failure to apply the new technique to comparative figures from previous years.

NZ takes butter battle to WTO

By Terry Hall in Wellington and Alison Maitland in London

New Zealand has asked the World Trade Organisation to overturn hefty European Union import duties on its "spreadable" butter, which has captured a sizeable part of the UK market with its ability to be spread straight from the fridge.

The case, the first New Zealand has taken to the WTO, follows months of abortive talks between the government and EU officials.

The EU ruled last year that spreadable butter was not eligible for reduced duties under New Zealand's 76,000-tonne quota for butter imports because it was not "directly manufactured" from milk and cream.

This means it faces an import duty of about £2,000 a tonne, compared with about £700 a tonne on ordinary butter, according to the New Zealand Dairy Board's Anchor Foods, which invented the product.

The board said the EU decision has forced manufacturing to be moved to Belgium at a cost of NZ$10m (US$6.95m) a year. This is in addition to NZ$75m spent building a factory in New Zealand and the promotional costs of launching the butter in Europe.

Spreadable butter, launched in the UK in 1993, accounts for more than 6,000 tonnes of New Zealand's 76,000-tonne EU quota. New Zealand believes there is a market for 12,000-15,000 tonnes a year.

The argument between New Zealand and the EU rests on the Ammix process. Both it and the traditional Fritz method convert pure cream into butter but the Ammix process breaks the cream down into fats and fluids before remixing them to make a "softer" butter.

The EU argues that Ammix does not directly convert the cream to butter; New Zealand argues the effect is the same.

"You put cream in one end and butter comes out the other," Mr Neville Martin, New Zealand Dairy Board spokesman, said. "The protocol [on New Zealand butter imports to Europe] was written before Ammix was invented and was intended to ensure we sold only butter made from pure cream: which we are doing."

The New Zealand Dairy Board is also challenging the decision in the European Court of Justice.

Mr Lockwood Smith, New Zealand trade minister, said yesterday New Zealand was taking the case to the WTO as it represented a clear breach of the obligations.

Under the WTO rules New Zealand and the EU have 60 days for further consultation after which New Zealand can ask for a dispute panel to rule on the issue if it is still not satisfied.

Israel turns to US to break impasse on Mideast peace

By Judy Dempsey in Jerusalem

Israel is looking to the US to save the Middle East peace process from collapse after Israeli troops and Palestinians clashed for the third day running in the West Bank towns of Bethlehem and Hebron.

Mr Dore Gold, the foreign policy adviser to Mr Benjamin Netanyahu, the prime minister, was last night planning to travel to Washington in the hope of breaking the impasse before violence shatters the fragile peace process.

The prime minister's office would not confirm the visit, but government officials said they hoped the US would try to arrange a meeting between Mr Netanyahu and Mr Yassir Arafat, president of the Palestinian Authority, who is on a visit to Sri Lanka.

However, the Palestinians would be loath to accept US mediation given Washington's recent vetoes on UN Security Council resolutions which condemned Israel's construction of a new Jewish settlement at Har Homa in east Jerusalem.

The effort to break the deadlock comes as the rhetoric on both sides has lost any element of trust, with bitter disputes over who was responsible for the deaths of three Israeli women killed in Tel Aviv last Friday by a suicide bomber from the Islamic militant group Hamas.

Mr Gold said yesterday the Palestinian leadership had given a "green light" to extremists to carry out terrorist attacks on Israel, adding: "If another attack is a result of their green light – which is still on – it will be a serious blow to the peace process".

But Palestinian officials denied they had ever encouraged Hamas and continued to blame the Israelis, saying Mr Netanyahu's decision to start construction work at Har Homa provoked the violence.

Diplomats said that even if Washington did intervene it was difficult to see what concessions either side could make to put the peace process back on track.

Mr Netanyahu, increasingly beholden to the nationalist and far right members of his governing Likud coalition, has, said one diplomat, "boxed himself into a corner. He cannot stop work at Har Homa and he cannot give more land to the Palestinians".

Mr Arafat, however, will require some concessions if he wants to maintain his authority among Palestinians before the start of the final status talks on Israel's future borders and the future of Jerusalem.

Other senior Palestinians have warned that the logjam will play into the hands of Hamas. Yesterday the Hamas leadership in Beirut said it was time to "deliver the mercy bullet to the dying peace process".

Hanbo probe reopened

Continued from Page 1

are also new allegations that leading politicians exerted pressure on prosecutors to end their earlier Hanbo investigation quickly.

The homes and offices of two close associates of the president's son were raided in connection with the probe, which relates to Hanbo's purchase of steel manufacturing equipment from SMS, a Dusseldorf company.

The investigation concerns claims by opposition politicians against the president's son, who has already been accused of meddling in state affairs. He was cleared of any wrongdoing in the Hanbo affair in the earlier investigation.

A memorandum discovered in the raid of his associates disclosed that supporters of the president's son were planning a smear campaign against opposition leaders to dissuade them from calling Mr Kim Hyun-chul before a parliamentary committee.

THE LEX COLUMN

Krupp's cop-out

Yesterday was an inauspicious day for German capitalism. Krupp's withdrawal of its hostile bid for Thyssen is a huge embarrassment for both the steel company and its financial advisers. And it reflects badly on Germany as a place in which to do business.

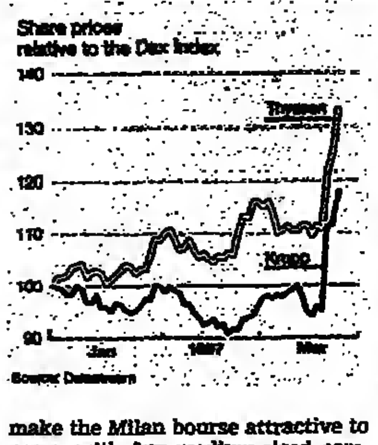
The two companies are still talking about combining their steel interests, which should realise cost savings of DM600m ($355m) or more. And they have not ruled out co-operation in other fields, such as automotive parts and engineering. But investors should not hold their breath. This is second-best to a full merger that might have realised benefits of more than DM1bn. Thyssen shares, up 20 per cent in under a week, look vulnerable.

Why has Krupp suddenly abandoned its aggressive stance? The backlash among steelworkers and politicians has doubtless played its part. But it also appears that Krupp's steel business is in worse shape than is commonly appreciated. This left the group in a weak bargaining position and Thyssen may have extracted its independence in return for agreeing to a merger of the steel divisions. In addition, it seems to have dawned on Krupp that a takeover would leave it saddled with debts of DM20bn (and pension liabilities worth another DM9.5bn) on a market capitalisation of DM7bn. Even assuming rapid asset sales, it would have needed a big equity issue, which would have diluted the interests of the Krupp foundation – the group's majority shareholder with a strong voice on the supervisory board.

But Krupp and its banks – Deutsche, Dresdner and Goldman Sachs – should have anticipated these points. They should have expected the political reaction; and, having launched the bid, should have been prepared to see it through. Of course, the mere fact the bid was mooted may, gradually, change perceptions. But that Krupp, with a strong industrial case and the country's two biggest banks in support, failed to carry home its assault will make others think twice.

FTSE Eurotrack 200: 2147.7 (-3.2)

Krupp and Thyssen



Italian regulation

Next month a new broom will arrive at the Consob, Italy's securities commission, in the form of Mr Tommaso Padoa-Schioppa, who takes over as chairman. It is an organisation that needs vigorous sweeping. Consob has failed to make the Milan bourse attractive to users, with few medium-sized companies coming to the market. Indeed Gucci, now a $4.3bn company listed in New York and Amsterdam, was blocked from listing in Italy because of Consob's narrow interpretation of the law. At the same time, investors have been frightened off by Consob's inability to raise standards of corporate governance and transparency from their very low base.

Part of Consob's problem is the unwieldy legal structure under which it operates. Mr Padoa-Schioppa needs to garner political support for amending bizarre takeover laws and arcane rules on areas such as equity issues. He should also encourage changes to a tax system tilted against listed companies – the government's urge to accelerate privatisations should make this possible.

But the main challenge is to build investor confidence. He must persuade companies to adopt the basic principles of good corporate governance. It is a job that more obviously requires the skills of a street fighter than a public servant; but Mr Padoa-Schioppa looks better placed to make a fist of it than his predecessors.

C&W Communications

When Cable and Wireless Communications' creation was announced last October, the partners put a notional value of £5.3bn ($8.4bn) on the combined entity. Hurrah, everybody cried, because the value was much higher than the sum of the constituent bits: Mercury Communications, a UK long-distance telecoms group, and three cable companies. How was this possible? By the simple ruse of valuing each of the parts at a premium.

Now, with CWC's flotation imminent, reality is setting in. Though some brokers think CWC is worth £7bn, the value implied by the share price of Nynex Cable Communications – one of the three cable groups – is only £4.8bn. And even that looks a stretch.

Nobody denies that the merger makes strategic sense, given the bind the partners were previously in. But, with CWC still investing huge sums to roll out its network, a dividend is several years away. Say the first is paid in four years, by which time CWC's net debt will be around £2.5bn. If shareholders expect a 12 per cent annual return, CWC's enterprise value will have to be £9.3bn in 2001 to justify a market capitalisation of £4.3bn today. Assume further that CWC is then valued on 12 times operating profit and enjoys 20 per cent margins. It would need £3.9bn in revenue - double last year's.

None of these assumptions is impossible, but each is a touch optimistic. Take a more conservative line and it is easy to value CWC at less than £3bn. Look at it another way, a £4.8bn value is almost twice book value. That looks generous for businesses which have been so successful, their brands are being scrapped as part of the deal.

Kirch

Germany's Kirch Group has had a bad few months. Take-up of its digital pay-television network has been below expectations; Britain's BSkyB, which was to have financed half the losses, pulled out; and now comes controversy over negotiations for a DM1bn ($500m) loan. Nothing funny about that, says the company: the money is not intended to stem a cash crisis in pay-TV and, anyway, it is perfectly normal for companies to borrow money.

Fair point. The oddity is that Kirch is seeking money from Bayerische Landesanstalt für Aufbaufinanzierung (LfA) – literally, the Bavarian state-owned company for financing start-ups. Kirch is hardly a start-up. As for the LfA, this would be one of its biggest advances. It is not surprising rivals are muttering about state aid.

Additional Lex comment on U.K. governance, Page 2

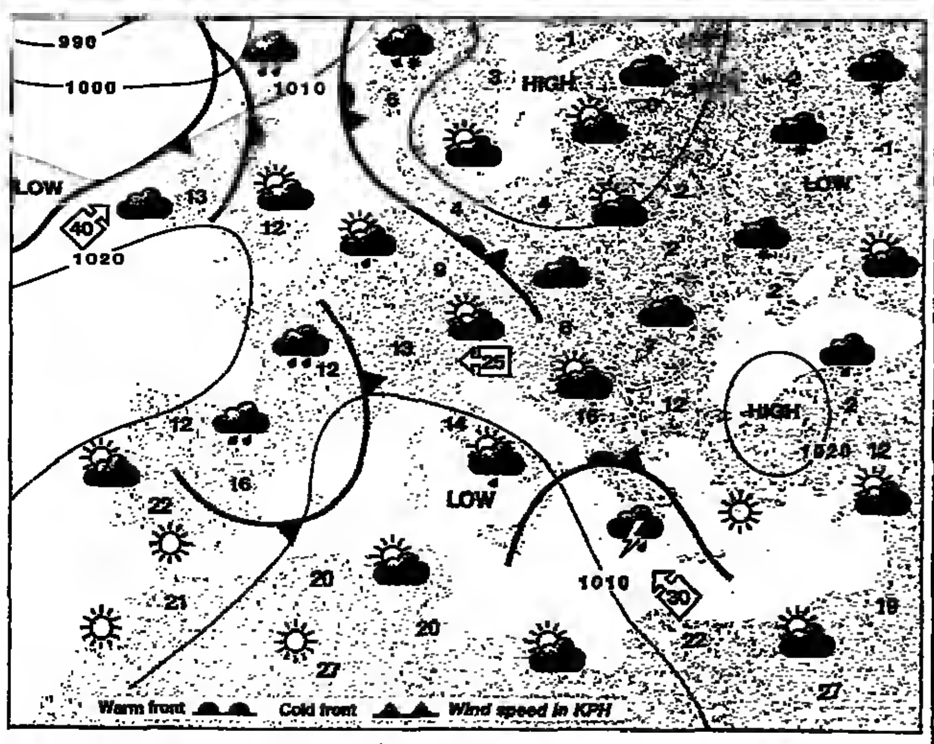
FT WEATHER GUIDE

Europe today

Southern areas near the Ionian Sea will have heavy rain and thunderstorms. Southern Spain will have plenty of sunshine. An area stretching from the Bay of Biscay to the Alsace will have cloud and rain. Eastern Europe will also be overcast. Parts of Russia and Ukraine will have some snow. Scotland and Ireland will have rain and fresh westerly winds. England will have sunny periods and gentle north-westerly winds. Northern parts of Africa will be sunny.

Five-day forecast

North-western areas will be cloudy with strong westerly winds and showers. Central Europe will be dry and sunny. Southern regions will continue to have thunderstorms.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

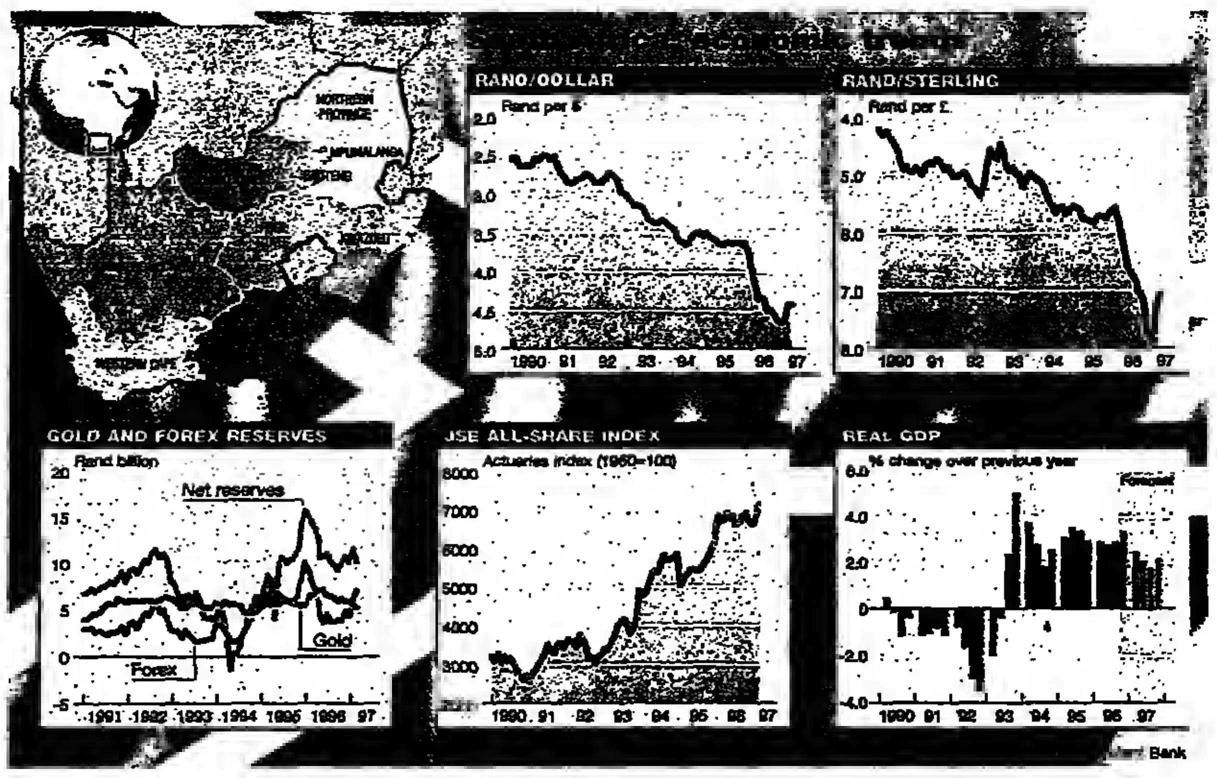
TODAY'S TEMPERATURES

	Maximum	Beijing	cloudy 14	Caracas	fair 29	Faro	cloudy 21	Madrid	fair 17	Rangoon	sun 35
	Celsius	Belfast	rain 13	Cardiff	sun 12	Frankfurt	cloudy 13	Majorca	thund 15	Reykjavik	sleet 3
Abu Dhabi	fair 28	Belgrade	fair 11	Casablanca	fair 20	Geneva	rain 13	Malta	shower 17	Rio	fair 28
Accra	fair 32	Berlin	cloudy 7	Chicago	rain 6	Gibraltar	sun 20	Manchester	fair 12	Rome	shower 17
Algiers	shower 17	Bermuda	sun 17	Cologne	rain 13	Glasgow	cloudy 12	Manila	fair 32	S. Frsco	sun 23
Amsterdam	cloudy 9	Bogota	fair 20	Dakar	fair 23	Hamburg	fair 6	Melbourne	cloudy 20	Seoul	sun 15
Athens	thund 13	Bombay	sun 31	Dallas	thund 14	Helsinki	fair -3	Mexico City	sun 24	Singapore	thund 33
Atlanta	shower 20	Brussels	cloudy 12	Delhi	sun 29	Hong Kong	cloudy 20	Miami	fair 26	Stockholm	cloudy 3
B. Aires	sun 26	Budapest	cloudy 9	Dubai	fair 28	Honolulu	fair 27	Milan	drzzl 13	Strasbourg	cloudy 13
B.ham	fair 12	C.hagen	fair 4	Dublin	rain 13	Istanbul	cloudy 6	Montreal	sleet 2	Sydney	shower 22
Bangkok	shower 38	Cairo	sun 19	Dubrovnik	fair 14	Jakarta	shower 32	Moscow	snow -3	Tangier	sun 21
Barcelona	fair 15	Cape Town	shower 23	Edinburgh	cloudy 12	Jersey	cloudy 13	Munich	cloudy 9	Tel Aviv	cloudy 14
						Karachi	fair 32	Nairobi	fair 30	Tokyo	sun 14
						Kuwait	sun 25	Naples	shower 15	Toronto	rain 7
						L. Angeles	sun 28	Nassau	sun 27	Vancouver	rain 13
						Las Palmas	fair 22	New York	cloudy 9	Venice	rain 12
						Lima	cloudy 23	Nice	rain 15	Vienna	cloudy 9
						Lisbon	cloudy 21	Nicosia	sun 15	Warsaw	cloudy 3
						London	shower 13	Oslo	drzzl 6	Washington	shower 13
						Lux.bourg	rain 11	Paris	rain 13	Wellington	fair 17
						Lyon	rain 12	Perth	sun 29	Winnipeg	fair 4
						Madeira	sun 19	Prague	cloudy 9	Zurich	cloudy 8

INVESTING IN SOUTH AFRICA

The country is having to temper its aspirations with acceptance of the need for pragmatic – and speedy – policies to attract foreign money, writes **Roger Matthews**

Facing up to new global realities



Production editor: Roy Terry

South Africa once teetered so perilously on the political precipice it is perhaps inevitable that it should be blighted by extreme perceptions.

So it was that 1994 was christened the year of the miracle, when the African National Congress took power without the country collapsing into civil war. It was followed by the honeymoon in 1995, when R20bn of foreign capital flowed into the country and democracy began to put down roots amid relative peace.

In 1996 the inflow of funds almost dried up, the rand tumbled, crime dominated the headlines, and the government appeared to be floundering.

After less than three months 1997 has been dubbed the year of stability and consolidation, in preparation for the great economic leap forward in 1998. The rand has steadied, money flows have been partly reversed, and Mr Trevor Manuel, the first ANC finance minister, has been transformed from villain to hero in a few months.

Stripped of the emotion, the most consistent theme running through all this is pragmatism. It delivered the political settlement, and it is in the process of establishing a consistent economic approach through which the country can start tackling the daunting legacy of apartheid.

Ideology has been, if not abandoned, at least tempered by the acceptance of the new global realities. The market might not yet rule, but the leaders of South Africa are increasingly aware that it cannot be ignored.

Mr Manuel summed it up in his budget speech earlier this month: "Job creation requires a steady stream of capital investment. In cases, such as our own, where savings ratios are low, we need to compete to attract savings from elsewhere in the world. For all these reasons, it is imperative we take stock of the disciplines of the global economy. We need to examine continually how we integrate into that economy, without sacrificing our fundamental and implacable commitment to social transformation."

No statement better illustrates the transformation of African National Congresa policy, not just in this decade, but particularly since it came into government in May 1994.

There are precise growth, employment and investment targets in the macroeconomic strategy. Privatisation has established itself in ministerial vocabularies, a start has been made on dismantling foreign exchange controls, and a tighter rein on government spending is producing a reduction in the budget deficit as a proportion of gross domestic product.

Part of the lesson was learned the hard way, with the rand suffering a fall of 28 per cent against the dollar at its worst point last year. Its collapse brought home to the government not just the importance of getting policies right, but of achieving a faster rate of delivery. And on that issue, the international investment jury is still out.

Delivery for most ANC members will be judged essentially on the pace of social change, in terms of eradicating tha worst poverty, building houses, improving access to education, and more health care. For the investor, foreign and local, it means the creation of a more friendly environment in which businesses can grow.

The two interpretations overlap more today than three years ago, but the political pain of having to translate tha policy changes into hard choices has yet to be fully felt.

One visiting investment banker said recently: "We are looking, we are interested, but we are not yet persuaded. Like a number of others we need more evidence before we will be convinced. And until that time it is likely that, in common with others, any commitment we make will be with one eye on the exit."

The pace of change may well prove critical. The government is now aware that international political goodwill does not translate into economic generosity. Many of the companies which left South Africa during the latter years of apartheid have re-established themselves, but as the government acknowledges, there has been a disappointly low level of new long-term fixed investment.

Similarly, the government's proposals for a fundamentally new type of trade and investment agreement with the European Union, which would recognise its role in assisting the development of the southern African region, has been largely rebuffed.


Trevor Manuel: transformed from villain to hero

Mr Alec Erwin, minister of trade and industry, and probably most enthusiastic salesman of the new South Africa in the cabinet, believes foreign investors have been slow to understand the importance of the changes already made. He says that South Africa can compete with most other countries in what it can offer, including political stability, a sophisticated infrastructure, labour flexibility, and export competitiveness. In addition, he believes it can become the manufacturing and trading bridge to link the fast-growing economies of Asia, the Middle East, and South America.

But giving substance to that vision is going to be tough. This year the economy is likely to grow more slowly than the 3.1 per cent achieved last year. This in turn means unemployment will continue to swell, as the mainly white first world part of the economy sheds more jobs, and the predominantly black third world part has yet to attract the labour-intensive investment it needs. The improvement in the current account of the balance of payments, reflecting the slowdown in imports and boost to exports caused by the devalued rand, is only likely to be sustained if labour costs and the worrying signs of renewed inflationary pressures can be contained.

Of equal immediate concern is that the growth in real gross fixed investment fell from 10.5 per cent in 1995 to 7 per cent last year, while the cost of servicing government debt now absorbs 24 cents of every rand in government revenues. Mr Manuel says the debt situation is untenable and unsustainable, but although his budget is designed to reduce the fiscal deficit from 5.1 per cent of gross domestic product to 4 per cent, it remains substantially higher than in most other developing countries. Further cuts are also likely to prove more difficult as the waste, inefficiency and lax accounting of the previous government is stripped away.

Meanwhile, Mr Chris Stals, the governor of the Reserve Bank, believes it is essential to maintain a very restrictive monetary policy to combat the threat of inflation again reaching double figures. This means little immediate prospect of a cut in the 17 per cent bank rate, in itself one of the most effective deterrents to investment, especially for the smaller and medium-sized enterprises which are looked to by government as the principal source of new employment.

But against that sombre background, hopes are rising that the policy initiatives of the past three years will soon bear fruit. Tariff cuts are exposing companies to international competition and forcing painful restructuring in several industries. Plans for corridors of industrial development are advancing, and none more promising than the one which will link the central province of Gauteng with Maputo, the capital of Mozambique.

A peaceful southern Africa is allowing for greater economic co-operation. The new labour relations legislation appears to have created an effective framework for resolving industrial disputes, and that part of the trade union movement allied to the ANC, although opposed to many developments in economic policy, has not sought confrontation. Pragmatism may also be taking root in this potentially testing relationship.

Whether these positive developments are enough to deliver the government's goals remains doubtful. It is looking for 6.1 per cent real growth in 2000, with inflation down to 7.6 per cent, and gross private savings at 22 per cent of GDP, the real bank rate down to 3 per cent, and the creation of 409,000 jobs. For that to be achieved the government will have to go beyond its newly-learned pragmatism, and take the bolder decisions demanded by the huge problems it inherited.

ECONOMY • by Roger Matthews

Hostage to the vulnerable rand

The government has little room for manoeuvre under the weight of debt

The depreciation of tbe rand dominated all other economic developments in South Africa last year. In the words of the Reserve Bank: "While the depreciation continued it created uncertainty, increased the risk premium associated with investment in South Africa, deterred potential foreign investment, raised the user cost of capital in the domestic economy, and fuelled expectations of rising inflation."

It proved a particularly harsh baptism for Mr Trevor Manuel, wbo took over as the African National Congress's first finance minister when the rand's slide was already well under way. However mucb he, or Mr Chris Stals, the governor of tbe Reserve Bank, insisted that economic fundamentals were sound, tbeir comments did little to check the currency's collapse.

By the end of the third quarter, the depreciation, coupled with declining business confidence, a worsening current account oo the balance of payments, and a marked slowdown in industrial production, provoked increasingly pessimistic forecasts for the year ahead. Some economists estimated that growth could fall to 2 per cent or less.

But the tide began to swing in the last two months of tbe year.

The current account deficit peaked at an annual rate of R15bn, and then declined progressively to R5bn in the final quarter. This halted the drain in gold and foreign reserves which started to improve in January, assisted by a stronger inflow of capital. There was evidence of a modest slowing in the rate of increase in money supply and domestic credit, while industrial output has started to revive.

Tbe rand stabilised, and tben started to claw back some of its 1996 losses. The process was aided by Mr Manuel's budget with its emphasis on fiscal discipline and relaxation of exchange controls.

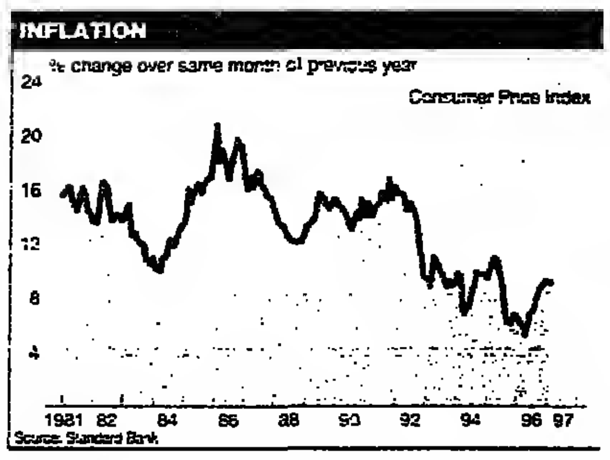
But even before Mr Manuel spoke, some of the economic gloom had started lift. Growth forecasts for the year are nudging eloser to 3 per cent again, altbougb tbe inability of the agricultural sector to repeat the strong contribution to output it made last year means that will probably be the upper limit of expectations.

Higher rates will be coostrained by a tight monetary policy determined by the renewed threat of higber inflation, and the Reserve Bank's commitment to acbieving greater currency stability.

Althougb the rate of increase in consumer prices last year was 7.4 per cent, the lowest for 24 years, by the final quarter the annual rate had risen to 11.6 per cent.

Mr Stals believes that the effects of last year's rand depreciation have not fully worked through, and will continue to put upward pressure on inflation.

INFLATION



Source: Standard Bank

It was against this finely balanced background that Mr Manuel delivering a budget which received a generally favourable response. He was able to deliver the pledge made by his predecessor that tbe fiscal deficit would be cut to 5.1 per cent of gross domestic product, and introduced proposals which should reduce it to 4 per cent in tbis financial year.

The government's longer-term strategy has already set the next goals of 3.5 per cent and then 3 per cent in the fiscal year 1999 to 2000. Mr Manuel accepts there is little room for manoeuvre with debt service costs forecast this year to eat up 21 per cent of total estimated government expenditure, equivalent to 6.4 per cent of gross domestic product. "The bigger our deficit the less money there is to invest in social development, poverty relief and the development of human resources," be reminded MPs.

International investors should bave been encouraged by the further steps taken to remove exchange controls. The impact on the rand of allowing South Africans to remit some money overseas, and to open foreign currency accounts in domestic banks, will not be felt until after July. Mr Stals hopes to have more reserves with which "to lean into the wind" by then if demand for dollars is higher than expected. He may also be able to count on a substantial inflow of dollars resulting from the sale of a 30 per cent stake in Telkom.

But these more promising developments appear to be having little impact on uoemployment. South Africa's most deep-seated and apparently intractable problem. The budget review estimated total employment at 10.2m based on figures from October 1995. This left about 4.7m people or 29 per cent of tbe ecooomically active population without jobs.

The review also pointed out that job losses in the past year in mining, construction and manufacturing were only partly offset by increased employment in services.

The Reserve Bank, in its latest quarterly review, added tbat the decline in employmeot since tbe second half of 1995 was largely due to efforts by the private sector to reduce costs and improve efficiency. It also underlined that the "relatively high rate of increase in real wages" last year was only partly offset by productivity gains.

"Tbis increase in real remuneration per worker in an envirunment of rislog unemployment was not in keeping with what could reasonably have been expected under such circumstances," said the bank.

But Mr Manuel remains optimistic. He expects the economy to grow by 2.5 per cent, during this year of "consolidation", the manufacturing sector to expand mucb faster than in 1995, a considerable surplus to be recorded on the current account, and a higber but slowing rate of inflation as money supply and eredit growth both contract.

He is still hostage, however, to the rand's vulnerability, especially to political developments – and to the unanswered question whether the economy can sustain growth rates of 4 per cent and beyond without triggering the balance of payments and inflationary problems whicb have plagued it in the past.

JOHANNESBURG STOCK EXCHANGE • by Mark Ashurst

Foreigners spark feeling of euphoria

Overseas interest has pushed the all-share index to new highs this year

Brokers at the Johannesburg Stock Exchange have discovered the fickleness of foreign sentiment. After the turmoil that rocked the currency markets last year the new year has brought an extraordinary surge in cunfidence among foreign investors.

Helped by a modest appreciation of the rand and the heady mood on Wall Street, the all-share index has reached new highs this year. Foreign buyers, traditionally deterred by the high price of blue-chip South African stocks relative to other emerging markets, last month boosted trading volumes to a record daily average of R830m.

"The foreign interest has sparked a state of euphoria and the feelgood temperature is running high," says Mr Edward Osborn, economist at stockbrokers Edey, Rogers and Company. "In a much exaggerated and exuberant form, this has the distinct appearance of a re-run of tbe first six weeks of 1996."

Investors hope the resemblance will not extend to the second six weeks of last year, when exuberance turned abruptly to despair. The collapsing rand wiped out foreigners' gains from two bull years, and dealt a severe blow to national morale. "Everyone has been through a crisis of confidence," says Mr Jacko Maree, managing director of Standard Corporate and Merchant Bank, "but tbe rand was not the end of the world."

From December to February this year tbe all-share index gained 7.3 per cent, buoyed by a leap of 14.4 per cent in the financial index. The total capitalisation of the JSE has increased by 7.5 per cent to R1.215bn over the same period. The market is still dominated by a handful of local institutions, but the higher trading volumes increased liquidity – measured as a proportion of market capitalisation – to 17.1 per cent in February. A year ago liquidity was 10.3 per cent – a level which many thought would not improve without the abolition of exchange controls.

Much of this reflects increased participation by foreign fund managers. Volumes have increased steadily since the abolition early last year of the traditional open-outcry trading floor in favour of screen-based electronic trading. The trend has been encouraged by new regulations allowing foreign-owned banking institutions to deal in securities, and simultaneously permitting broking firms to trade on their own account.

The general confidence does not extend to gold, wbere some of Johannesburg's oldest stocks have trailed other sectors. At 1,566, the all-gold index is 12.3 per cent lower than its February 1996 level, causing gold stocks to lose much of their lustre as a rand bedge for local investors. The benefits of devaluation, which boosted the net value of gold exports by 16.7 per cent last year and provided a fillip for local mines, have been eroded by the weakness in the global bullion market.

The industrial index has also lagged the all-sbare index, and in spite of a modest recovery last month remained 0.7 per cent below its level in February 1996. Analysts say the delayed impact of rising exports, and the prospect of a cut in interest rates later this year will enhance its performance.

Other counters - notably Sasol, the synthetic fuel producer, and Persetel, a net exporter of computer software – have benefited from local investors seeking to bedge against currency risk.

Black-controlled businesses have also gained in stature, with most having comfortably outperformed the market last year. There are now 16 black-controlled stocks which make up 2.5 per cent of the market by capitalisation.

Hopes that the three-year-old bull run will continue are encouraged by steady progress in easing exchange controls, and the start of the long-delayed privatisation programme. According to the latest briefing from Standard Bank, the rand could "perform much better in 1997 than was thought possible a month or two ago".

This optimism is shared by ING Barings, which expects foreign inflows to the JSE to tup $2.7bn this year, from $1.22bn last year and $1.34bn in 1995. Tbese will be encouraged by the recent fall in marketable securities tax, which was cut from 0.5 per cent to 0.25 per cent in the February Budget. Foreign market funds are forecast to increase their exposure to Johannesburg from last year's average of 4 per cent to 5 per cent to 6 per cent to 7 per cent by tbe end of this year.

In spite of tbese trends, foreign exposure to South Africa remains well short of the 18 per cent recommended in the indices of most multinational ratings agencies and investment banks.

The shortfall is not entirely explained by currency and political risks. It is also due to exchange controls inhibiting what many see as South Africa's potential to emerge as a hub for local and international mining groups with expanding African interests.

Only when these controls are removed will the critical issue of a fair value for the rand be resolved. In spite of persistent efforts, economists have spectacularly failed to devise a formula for valuing the rand. Mr Osborn blames the dominance in the local economy of primary exporters, wbose innate productivity problems and dependence on commodity markets has defied analysts' calculations.

POLICIES • by Roger Matthews

Cautious approach to problematic legacies

Exchange control, privatisation and competition are more thorny than expected

The three linked issues of foreign exchange controls, reorganisation on the state sector to include elements of privatisation, and competition policy, loom large for potential investors, especially those from overseas.

Equally, for the government they provide three of the most problematic legacies from South Africa's lengthy political and economic isolation. Each, in their different ways, hinder investment, but radical reform requires economic risk and a political willingness to confront established interests.

So far the government has opted for caution. Perversely, competition policy, on which the African National Congress shows most political will to make substantial change, is the one on which there has been least progress. In spite of strident statements from the ANC national executive about the urgency of breaking what it describes as the stranglehold on the economy exercised by the country's five biggest conglomerates, the introduction of legislation has been repeatedly postponed. Mr Alec Erwin, minister of trade and industry, says a draft law will be tabled this year.

The arguments were last thoroughly rehearsed in 1995, when Mr Trevor Manuel, then responsible for trade and industry, appeared determined to press ahead with the issue. With the biggest groups directly or indirectly controlling up to 75 per cent of the Johannesburg Stock Exchange, the need for greater diversity of ownership appeared obvious.

Mr Manuel was told several times by visiting trade groups that entry to the market was blocked in effect, in part because companies would be forced to rely on suppliers controlled by their main competitors. But whether this dominance should be tackled by seeking to force the conglomerates to unbundle, or by imposing hefty penalties on those proved to be abusing a dominant position, was not satisfactorily resolved.

The conglomerates argued in response that it was the efficiency of the companies they controlled which made it difficult for foreigners to compete, and warned that forced sales would be vigorously opposed, not least because of the damage it would inflict on investor confidence.

When Mr Manuel showed the draft bill on competition policy to legal advisers, he was warned that it was so full of loopholes, and so poorly constructed, that it needed substantial revision.


Chris Stals: rejects the 'big bang' method

Perhaps the most telling argument advanced by the conglomerates was that, even if they wished to divest, because of exchange controls there was no opportunity to reinvest the proceeds other than in South Africa. The validity of this argument has been broadly accepted by government, which is committed to the progressive abolition of exchange controls but rejects the "big bang" approach demanded by leading industrialists.

In this, the government has the full support of Mr Chris Stals, the governor of the Reserve Bank, and the International Monetary Fund. The risks are just too great. If a "big bang" was followed by a demand for foreign currency which exceeded the reserves, plus additional credit lines, interest rates would have to soar and there might be no alternative to the reimposition of controls. The damage to the credibility of the ANC government, and consequent political instability, could be severe.

Instead the government will stick to its policy of relaxing controls as conditions permit. The latest instalment came on the March 12, when Mr Manuel in his first budget as finance minister, announced a package of measures which will allow South Africans to remit currency overseas from July 1, or to hold foreign currency accounts in domestic banks. Although the limits have yet to be announced, it is an important first step in gauging the level of pent-up demand for foreign currency among individuals. Should demand prova less than some alarmists fear, further relaxations can be expected.

The regulations affecting the overseas investments of South African companies have been slightly eased, but the government will continue to be cautious in its approach to institutional investors. Insurance companies alone control about R375bn in assets. As a first step they would like to hold 10 per cent of this in foreign assets, a sum three times greater then the government's net gold and foreign currency reserves.

Progress on reorganising the state sector has also turned out to be more complex than initially expected, and has been complicated by the strong ideological opposition of the ANC's union allies to privatisation.

The impending sale of a 30 per cent stake in Telkom for R5bn to R6bn will be by far the largest disposal in the next 12 months, accompanied by the sale of the small airline Sun Air, and Aventura, the hotel and resort company. The search for an equity partner for South African Airways, and other transport related companies will depend on the reorganisation of Transnet, the state owned transport sector, a task made more challenging by financial problems caused in part by the underfunding of pension schemes.

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LABOUR • by Mark Ashurst

New constitution for the workplace

There have been fewer strikes but wage inflation and joblessness still persist

Four months after the implementation of the new Labour Relations Act, South African trade unionists are savouring the fruits of their alliance with the ruling African National Congress.

"Looked at from the narrow perspective of immediate worker and union interests," says Mr Andrew Levy, whose industrial relations consultancy counts an array of blue chip companies among its clients, the new legislative framework is "close to an unalloyed triumph" for the labour movement.

The act – a composite of collective bargaining procedures inspired by Germany and the Netherlands, and customised dispute resolution mechanisms modelled on those of North America – has created a new constitution for the workplace.

After decades of industrial strife, exacerbated by the role of trade unions in the anti-apartheid movement, the new system has scored some early successes. Official figures show that under the old dispensation less than 30 per cent of industrial disputes were settled without industrial or legal action. The new mechanisms for conciliation and arbitration claim settlement rates of close to 80 per cent since taking effect in November.

Their effectiveness is due in part to the role of industry-level centralised bargaining structures, which have shifted much of the most contentious areas of negotiation away from the new workplace forums.

"Ironically, the sectoral bargaining procedure takes sectoral bargaining out of the equation on the shop floor," says Prof Clive Thompson, head of the labour law unit at the University of Cape Town. "They provide an economic floor across a whole industry, without sacrificing the scope for enterprise-level agreements. There is an explicit second channel for negotiation through workplace forums."

This parallel structure has been criticised as excessively complex by many businessmen, who acknowledge its sophistication but say that institutionalised bargaining flies in the face of several well documented trends. They say that the new system will simply encourage the shift towards more informal types of employment, increased use of temporary staff, outsourcing of non-core activities, and the replacement of manpower with machines.

Such trends highlight the problems of correcting the exploitative labour practices of apartheid without compromising flexibility in an increasingly uncertain labour market. Yet many of the act's creations have antecedents in the apartheid era. Its underlying logic of parallel bargaining structures owes much to the companies which, in the 1980s, reacted to unions' suspicions of ministerial appointees to the Industrial Court by developing extra-statutory systems.

The greatest concern among businessmen is that the shift to a less adversarial system has yet to foster a reduction in the rate of wage inflation. Collective bargaining has improved the situation. Last year, negotiated wage settlements resulted in average increases of 9.9 per cent, the lowest level since 1986, but overall wage inflation, which includes sectors not covered by the strictures of the Labour Relations Act, rose to 11.25 per cent last year. Measures to reduce controversial wage differentials in the retailing, construction and manufacturing industries resulted in the lowest paid workers in many sectors receiving increases of 15 per cent of more.

> After decades of industrial strife, the new system has scored some early successes

These inflationary settlements may have contributed to the relatively low level of strikes. Mr Levy reports that 1.7m working days were lost last year, compared with 1.6m in 1995, which was the lowest since 1988. The figure was boosted by a week-long strike by textile workers, a sector under severe pressure in the wake of tariff liberalisation, and an illegal strike at Anglo American's Rustenburg Platinum, which was condemned by the recognised trade unions.

Few would contest that the stabilisation of industrial relations is the first step in creating an investor-friendly labour market. There is also evidence of an increase in labour productivity, which has increased by about 3 per cent a year since 1995, in spite of the fact that no company has yet achieved a binding agreement on productivity in any of the new negotiating chambers. A simultaneous rise in the productivity of both capital has fuelled growth of manufactured exports, while the increase in averaga unit labour costs has lagged wages, and increased by less than 9 per cent last year.

For the ruling African National Congress, these are hollow victories rooted in the persistent problem of increased joblessness. Three years of economic expansion have failed to create new jobs – a situation that the government can ill afford. With the new labour relations framework in place, and one third of the economically active population out of work, the stage is set for reforms which put the needs of the jobless above the interests of the employed.

The first of these measures is the Employment Bill, which will seek to encourage job creation at the expense of overtime for those already in work. According to the International Labour Organisation the level of overtime worked in South African is among the highest in the world.

Mr Tito Mboweni, minister of labour, plans to correct this by raising rates of overtime pay – a proposal he hopes will "get more people working rather than getting existing employees working more".

Such reforms are particularly sensitive because of the political alliance between the Congress of South African Trade Unions and the ANC. Unions stalled the government's privatisation programme for much of last year, but ultimately won few concessions in the policy arena.

The government's macro-economic strategy, spelt out in the Growth, Employment and Redistribution document (GEAR), largely ignored union opposition to further liberalisation of the economy.

At the root of the differences lies the question of tha future role of the union movement, whose loyalties have been tested by the use of union pension funds to promote emerging black business.

The conflict of interest is particularly apparent in the their tolerance, if not support, for the key aspects of GEAR. In spite of tentative support for market-oriented reforms, labour remains resolutely opposed to holding wages to inflation or less, a policy urged by ministers.

While the role of the unions will take time to emerge, investors will have to come to terms with a strong labour movement. "That need not entail an ineluctable clash," says Prof Thompson. "The sheer discipline of globalisation will have an impact. The unions are not antedeluvian."

EUROPEAN UNION TRADE • by Caroline Southey

EU's patience is running out

Diplomats are finding it difficult to accommodate demands coming from Pretoria

The EU's attempt to forge closer ties with post-apartheid South Africa is proving to be one of the most troublesome bilateral deals ever negotiated and is beginning to test the patience of diplomats in Brussels.

Initial enthusiasm when the first ideas on a wide-ranging trade and co-operation pact were mooted two years ago has faded. The prevailing mood is one of distrust between Brussels and Pretoria and tension among the EU's 15 member states over what South Africa should be offered.

South Africa's chief negotiator admits the obstacles are formidable. "Our positions are wide apart, particularly on trade," says Mr Elias Links, the Republic's ambassador to the EU.

He says there is a "growing realisation" in Pretoria that the EU is finding it difficult "to deliver its initial promises. It is easy to agree on objectives but problems arise when it comes to delivery by the 15 member states".

EU diplomats in Brussels admit that the proposed deal with South Africa is proving difficult to negotiate. "The strange thing with these negotiations is that the partner does not seem very interested in striking a deal.

It appears South Africa's political leadership is not really convinced they want an accord with us," an EU official said.

EU diplomats believe "warm feelings towards South Africa" still exist, but that the EU's patience is "running out".

The main obstacle to progress is the EU's proposal that the two sides should enter into a wide-ranging trade and co-operation pact, which would include the eventual creation of a free trade area (FTA). Under such an agreement both parties are obliged to phase out, over a fixed period, all barriers on the bulk of goods traded.

Pretoria's objection to the plan is that it puts as much onus on the weaker party as it does on the stronger partner. "FTAs are suitable deals for developed countries. They are less appropriate when one country is economically much stronger than the other," a South African trade official said.

South Africa has argued that, given its level of economic development, it should have been offered the preferential trade terms offered to African, Caribbean and Pacific countries under the Lomé convention.

Although South Africa has settled for qualified accession to Lomé without the preferential trade terms, Pretoria remains committed to securing a deal that focuses on its development needs.

Efforts by the two sides to find common ground on the FTA has been further undermined by EU countries insisting that 40 per cent of South Africa's agricultural exports to the EU should be excluded from the deal.

"The question we are asking is whether this is a real free market agreement," Mr Links says. "The exclusion list is not in line with the objective of securing the growth levels and developments such a deal should help achieve."

EU officials believe that South Africa has exaggerated the importance of the exclusion list, pointing out that the farm products represent only 4 per cent of trade with South Africa and that the proposed deal would cover 96 per cent of trade.

"There is no other FTA with that level of coverage," an EU trade official says.

But the issue has delayed progress. South Africa has withheld tabling a detailed response to the EU's proposed mandate. Instead it issued a document earlier this year setting out its arguments for a deal which would focus on South Africa's development needs.

EU officials believe the absence of a detailed negotiating document from Pretoria is a sign of divisions in the South African government about how to proceed. "The problem is that they don't know what they want," a trade official said.

Nevertheless, EU officials believe differences on an FTA are being narrowed as a result of progress on two key issues – the pace at which the EU will remove trade barriers and an acknowledgement that the deal cannot be allowed to undermine South Africa's trading relations with neighbouring countries.

"Both sides accept that the EU has to open up its markets faster. The EU also accepts that it cannot demand conditions that will undercut regional markets," the EU official says.

South Africa has argued that any deal with the EU has to take into account regional trade pacts. "We would be hurting ourselves if we just walked out of a customs union with our neighbours. We cannot have a deal with a third party that is detrimental to the others. Any deal with the EU is automatically binding on all customs union countries," Mr Links says.

One obstacle at least appears within sight of being settled – agreement on the terms of South Africa's accession to Lomé. Spain had argued that the EU should withhold approval of accession until Pretoria made concessions in other areas of negotiations.

"There is not that much for us economically or financially in Lomé so there is little incentive to pay a price for it," Mr Links says, although he admits that membership is important for political reasons.

Spain's objections struck a chord with some EU officials involved in negotiations. "Maybe we have conceded too much too early," says one official.

He points out that the EU has already committed ECU125m in funds and a further ECU150m in loans annually over the next four years. "That is bigger than what we do for countries such as Poland and Hungary," the official adds.

Diplomats have not given up hope of concluding a deal. Both sides point to progress in technical negotiations.

South African imports from EU

	Rand ('000)	% of total
Nuclear reactors, boilers, machinery etc	11,803,283	24.51
Electrical machinery and parts	6,739,028	13.99
Other unclassified goods	4,299,439	8.93
Vehicles (excl railway) and parts	4,144,456	8.61
Optical, photographic, measuring equipment etc	1,873,830	3.89
Plastics and plastic articles	1,587,575	3.3
Organic chemicals	1,539,748	3.2
Misc chemical products	1,160,854	2.41
Paper and paperboard	1,103,310	2.29

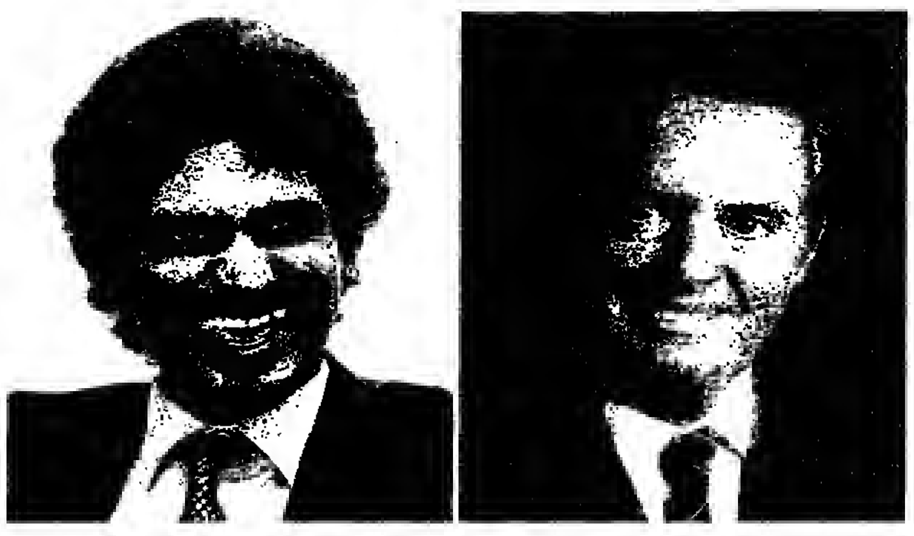
Source: South Africa Department of Trade and Industry

South African imports from SADC*

	Rand ('000)	% of total
Tobacco and manufactured tobacco substitutes	331,565	17.17
Cotton	175,885	9.11
Wood and wooden articles	127,010	6.58
Articles of apparel & clothing accessories	76,827	3.98
Natural or cultured pearls, precious metals etc	69,077	3.58
Nuclear reactors, boilers, machinery etc	65,364	3.39
Iron and steel	60,347	3.13

*Southern Africa Development Community Source: South Africa Department of Trade and Industry

FOREIGN INVESTMENT • by Mark Ashurst



Jay Naidoo (left): launching the privatisation programme; Leslie Boyd (right): 'we need the know-how'

Asia takes up the challenge

After years of isolation, South Africa is welcoming the return of many multinational companies. Profiles of some of these companies appear on this and the next page

Among the many developing countries vying for the attention of foreign investors, South Africa is an obvious anomaly. Judged against the emerging markets indices drawn up by global ratings agencies and investment banks, its share of the world's emerging market funds lags well behind the theoretical targets. Yet, local institutions are loaded with cash, the stock market has sustained its bull run for more than three years, and the prospects for continued growth in corporate earnings are sound.

The discrepancy is unique to South Africa – a country that boasts a relatively mature financial and industrial infrastructure, but was isolated from the outside world by sanctions. "We are not really an emerging market," says Mr Jacko Maree, managing director of Standard Corporate and Merchant Bank in Johannesburg. "The indices are probably overstated and it will be a long time before people are fully up to weight in South Africa."

As a result, the country is at a disadvantage when competing for foreign funds against more authentic emerging markets, where capital is more easily seduced by higher growth rates. To achieve the government's target of annual gross domestic product growth of 6 per cent by 2000 requires fixed investment of 25 per cent of GDP. "At this stage, that can only be financed by foreign investment," comments Mr Jos Gerson, chief economist at Smith Borkum Hare, the South African arm of the Merrill Lynch group. Last year fixed investment reached about 17-18 per cent of GDP, a level which already exceeds the gross domestic savings rate of 16 per cent among local corporations.

In the wake of last year's volatility, the official targets may be Utopian. After two years of surging capital inflows to the equity and bond markets, and a creeping increase in fixed investment, the sharp devaluation of the rand was a rude shock to many foreigners. By the second half of 1996, the net inflow of long-term capital had ground to a sudden halt.

In the December quarter, there was a net outflow of R5.4bn from the private sector, as nervous local corporations rushed to settle foreign debt and foreigners offloaded equity worth R500m on the Johannesburg Stock Exchange. According to Reserve Bank statistics, annual net inflows plummeted last year from R15.1bn in 1995 to R4.9bn.

There have been signs of a swift recovery this year, although longer term investors are still outweighed by short term ones. "Foreign funds are increasing their exposure to South Africa from 3 per cent to around 6 per cent this year, and they will eventually get up to 18 per cent," insists Mr Gerson. Even if this does not happen, the volatility of the rand has been a sobering lesson that may ultimately be in South Africa's best interests. "I notice every time I go to London or New York that there are more people who know about South Africa. We are becoming less susceptible to event risk," says Mr Maree.

International confidence may be improved this year by liberalisation of the public sector. After much political controversy, privatisation is due to begin in earnest next month with the sale of a 30 per cent equity stake in Telkom, the state-owned telephone utility, to a foreign communications group. The deal is the biggest privatisation in southern Africa to date, and the linchpin of the government's strategy to establish a regional hub for global telecommunications traffic. "None of the government's plans can come to fruition without an information backbone," says Mr Jay Naidoo, minister of telecommunications.

Most bidders have been deterred by the complexities of the transaction, and only one final offer was received from a consortium of SBC Communications and Malaysia Telekom before the February 28 deadline. Mr Naidoo expects the deal to raise R5bn-R6bn, which includes a premium calculated on the basis of the projected value of Telkom when its monopoly expires early next century. If this price is achieved, the investment will dwarf the previous record foreign investment of R1.9bn from Petronas, the state-owned Malaysian oil and gas company, for a 30 per cent stake in Engen, the oil company, in July last year.

Both transactions signal the expansionist plans of Malaysian business, a development welcomed by the ruling African National Congress which has sought to forge new economic ties with developing nations. While many western-based companies within the OECD have returned to South Africa by reinvesting in interests abandoned during the sanctions era, Malaysia has no history of previous investment. Its recent industrialisation, rapid growth and anti-apartheid heritage have enabled a mutual economic interest to emerge from the warm diplomatic ties between the two countries.

Seven Malaysian groups have invested more than R2.9m, mostly in the energy, property and tourism sectors, and analysts expect further inflows. A survey carried out last month by BusinessMap, a local research agency, suggests that Malaysian companies' experience of "growing up in an emerging or transitional economic environment has probably made them less risk averse than western-based companies to South Africa's new political status".

Their activity has been matched by Japan, where multinational car manufacturers have acquired stakes in the local operations of Automakers, assemblers of Nissan vehicles, and Toyota South Africa. Their objective has been to expand outside the established market by developing new distribution networks in the rest of Africa. A similar logic underpins a spate of joint ventures in the heavy manufacturing sector, of which the latest example is a three-way deal between Komatsu, Itochu Corporation and Anglo American Industrial Corporation. The Tokyo-based groups will inject R90m into a new company, Komatsu South Africa, to supply mining and construction equipment across the continent.

The appeal of new export markets remains the principal motivation for new investment by foreign companies, whether from the east or from the west. In many instances, such as Coca-Cola's recent injection of R500m to install new plant and distribution facilities at its seven South African bottlers, the investment has been matched by local capital. Where local conglomerates are involved, foreign partners are more likely to contribute management skills, new technology or access to international markets. "We seldom need the capital," insists Mr Leslie Boyd, chairman of Anglo American Industrial Corporation. "What we need is the know-how."

Knight Frank

A nation of opportunities

The company has set up in a market it expects will burgeon in the coming decade

Knight Frank, the UK-based international property consultant, had been looking at the South African market for five years before it took the plunge in February and acquired a stake in Multiprop, established in Johannesburg three years ago by Mr Mike Brown and Mr Ian Young.

The company will trade under the Knight Frank name and aim to take advantage of what Mr Brown describes as the "fantastic opportunities that have opened up here since the general election in 1994". Knight Frank will make "a significant capital injection", allowing the present operation to expand and become the hub of its African operations.

Mr Peter Caroe, Knight Frank's regional chairman, says South Africa is essential to the company's strategy in Africa, where it already has 14 offices in five countries, and to its wider international ambitions. A survey of the South African market by Knight Frank concludes that it is among the largest and most diversified in the world and "should emerge as one of the most important international real estate markets over the next 10 to 15 years".

This is in part due to the impact of having being largely closed to foreign investment for so long. There is minimal foreign ownership of commercial property and the Knight Frank survey shows that ownership is concentrated in government, with about 130,000 properties, and a small number of large institutions. Estimates suggest that these institutions control 60 per cent to 70 per cent of the market.

The two biggest are Old Mutual and Sanlam, with property portfolios of R10bn to R15bn respectively, followed by Liberty Lifa with about R6bn, and Southern Life and Anglo American with between R1bn and R3bn.

The market for office space has been particularly buoyant in the past three years, assisted by some foreign arrivals but driven in Johannesburg by the continuing move northwards from the crime-afflicted central business district. Knight Frank says office rents for prime space rose 12 per cent in Johannesburg last year, 17 per cent in Durban, and 20 per cent in Cape Town.

It expects the main South African markets to show an annual rental growth of about 15 per cent over the next five years, or about 5 per cent above the national inflation rate. Even so, the markets will remain considerably cheaper than most other centres in developed economies.

The industrial sector has been following a similar path, with demand growing strongly, particularly along the corridor between Johannesburg and Pretoria, which is favoured by multinational investors.

The retail market is more complex. As the Knight Frank survey explains: "It is as if the American mall concept has been interwoven with downtown Bombay, with passing reference to the strip-style development of an Australian outback town." And while the prosperous mainly white areas are generally well served, the non-white areas "offer enormous potential".

But Knight Frank cannot say to what extent the political changes in South Africa will be reflected in the development of new retail centres.

It suspects that initially at least newly-affluent non-whites will be drawn to existing outlets, rather than to new, local developments. As with so many other aspects of the new South Africa, Knight Frank believes that detailed research is a critical part of any investment decision.

Roger Matthews

Retail rental profile

Centre	Prime CBD* retail rent (R/sq m/month)	Prime suburban retail rent (R/sq m/month)
Johannesburg	105-115	115-125
Cape Town	55-60	65-75
Pretoria	65-70	75-85
Durban	100-110	95-105
Port Elizabeth	35-45	110-120
East London	30-35	n/a

* Central business district. Source: Knight Frank Research

Office market (fourth quarter, 1996)

Cities	Total stock (sq m)	Availability (sq m)	Vacancy rate (%)	Prime rents (R per sq m per month)
Johannesburg	5,257,100	524,975	10.0	45-55
Cape Town	1,511,200	96,200	6.4	35-45
Pretoria	1,546,050	169,100	10.4	30-40
Durban	932,400	98,700	10.6	40-50
Port Elizabeth	65,100	12,750	19.6	30-35

Source: Knight Frank Research

Ford

US carmaker back in the driving seat

The company's partnership with Anglo American has lifted vehicle sales

Ford returned to South Africa in November 1994, six months after the inauguration of President Nelson Mandela, in a joint venture with Anglo American. Samcor is 45 per cent-owned by each partner, with the balance of 10 per cent of the shares held in a trust for employees.

Since February 1995 Samcor has been the sole supplier of the 1.4 litre engines for the European Escort model.

The group also builds Mazda, Mitsubishi and Ford vehicles at a plant outside Pretoria. The company is not listed, and Ford will not disclose the value of its cash injection into the new venture. "This was not about capital investment," says Mr Jim Miller, Samcor group managing director. "Cars are not Anglo's core business and they were actively looking for an international automotive manufacturer to manage the business."

The group built its first vehicle assembly plant in South Africa at Port Elizabeth in 1923, and has maintained a presence in the country for 67 of the 74 years since. In July 1985, faced with growing international pressure for sanctions, Ford merged its local operation with Amcar, the vehicle manufacturing subsidiary of Anglo American Industrial Corporation, to form Samcor.

Two years later Ford divested entirely from South Africa by selling half its stake to Anglo and donating the balance of 24 per cent of Samcor shares to a trust for employees.

On its return in November 1994, Ford bought 31 per cent of Samcor from Anglo and paid R50m to the employees' trust for a further 14 per cent stake. It also resumed operations in the harbour city of Port Elizabeth, where it makes about 400 Escort engines daily, of which more than 90 per cent are exported.

According to Mr Leslie Boyd, Amic chairman, "Ford was always first prize in our search for an international partner."

The expansion has not created new jobs, but has brought significant changes in human resources policy. Mr Miller says "a handful of Ford employees" were brought in from abroad to strengthen links with the international parent, secure access to Ford technology and guide Samcor into the export market.

On the factory floor about 450 hourly staff were made redundant, from a total of 3,000, and 200 salaried jobs were cut. Of the remaining staff, 400 workers previously employed as contract labour have been given permanent positions.

Productivity improved by 50 per cent last year, which Mr Miller attributes to the redundancies and improved training. One of his first tasks was to hire 12 teachers to conduct full-time, basic education. "I was horrified to learn that 80 per cent of our workers were not literate or numerate, even though most of them can speak six languages," he recalls.

The lessons made Samcor employees "better family and community members and created a more stable workforce. The only sustainable, competitive advantage in this industry is skills and talent."

Samcor does not publish its annual turnover, but Mr Miller says the rise in South African vehicle sales – up 17,000 last year – was due largely to the increased output at Samcor.

This is in spite of stiff competition from imported vehicles following the dismantling of protective tariffs, which have fallen 50 per cent in the past two years.

The reforms are designed to foster an internationally competitive automotive industry, a goal which Mr Miller says "cannot be achieved overnight. The plan was very well intended, but unfortunately South Africa has been isolated for so long that I don't think there was anyone who understood sufficiently the impact of lowering tariffs".

Mark Ashurst

Microsoft

Beachhead for expansion

Market leadership in South Africa has created a launchpad into other markets

Microsoft entered the South African market in early 1993, after choosing Johannesburg as a beachhead for expansion in Africa. Windows, its best known software, is now the standard operating system in more than 80 per cent of computers in South Africa, says Mr Rob Katz, Microsoft managing director for sub-Saharan Africa.

He estimates that four years ago, when Microsoft relied on local distributors to market its products, Windows penetration was about 30 per cent. The company does not publish a geographical breakdown of its global revenue, but analysts say the South African business contributes about $65m, or 0.75 per cent of Microsoft's global turnover of $8.6bn.

Sales in the rest of Africa are estimated to contribute $13m. Its two new outlets in Kenya and the Ivory Coast are officially subsidiaries of the Johannesburg office, and a further 10 are expected to open by 2000. Piracy remains an acute problem. The company estimates that up to 90 per cent of Microsoft software in some African states has been acquired illegally.

Local sales have increased 10-fold since the Johannesburg office was launched with a staff of four, says Mr Katz. The staff has grown to 120, including a subsidiary office Cape Town. The launch of a dedicated office has enabled Microsoft to introduce its own service and sales structures, which have in part replaced those developed in isolation by independent dealers and distributors.

Various "customer units" specialise in an array of niche markets, ranging from individuals to large corporations and so-called "enterprise customers" who require customised services and after sales support. Microsoft's investment in South Africa is "in the tens of millions of dollars," says Mr Katz.

The greatest obstacle to growth is the low penetration of personal computers. Mr Bill Gates, Microsoft's founding chairman, estimates there are only 34 computers per 1,000 South Africans, compared with 300 computers per 1,000 people in the US. "This is a tremendous growth market for us," he said during a visit to South Africa this month. "We view South Africa not just as a launch pad into the rest of Africa but as one of the most advanced countries in its use of technology."

Mr Katz cites sub-Saharan Africa, where he says sales have mushroomed 30-fold over four years, as evidence of this potential. "When we opened, 1 per cent of our revenue came from regional Africa, now that figure is 20 per cent."

He has high hopes that the imminent sale of a 30 per cent stake in Telkom, the state-owned telephone company, to a consortium of US-based SBC Communications and Telekom Malaysia, will establish South Africa as a hub of telecommunications traffic in Africa. This process will encourage the spread of the Internet and stimulate demand for networking software.

To promote awareness of these technologies, the company has donated "significant volumes" of product and expertise to education projects, particularly in disadvantaged communities. More than 3,000 teachers have received computer training under the auspices of Microsoft's "Train the Trainer" programme.

The company sponsored South Africa's first digital village, a computing and resources centre at the Chiawelo Community Centre in Soweto, and has pledged to equip a further 100 similar community centres.

Mark Ashurst

Hilton

Armin Schrocker: 'you must have an ear close to the ground'

Prime five-star operator

During the next 18 months the hotel chain will invest a total of more than R1bn

Tourism and business travel have such obvious growth potential in South Africa it is surprising that only Hilton, part of the UK Ladbroke Group, among the large international hotel chains, has so far announced a significant investment programme. During the next 18 months it will open hotels in Durban (July), Johannesburg (September), and Cape Town, with a fourth, just south of Ballito on the Kwa-Zulu-Natal northern coast, likely to be finished soon afterwards.

The total investment will be more than R1bn (much of it from Malaysia) and will create well over 1,000 jobs directly while many other employment opportunities will arise in ancillary industries. "The impressive thing about South Africa is that from ground-breaking to completion it is possible to build an hotel here in 15-18 months," says Mr Armin Schrocker, divisional director for southern Africa and general manager of the Sandton Hilton in Johannesburg's northern suburbs.

"South Africa is one of the very few emerging markets which has an infrastructure that is fundamentally good for doing business. In many other places we might be struggling, but not here. In addition, this country has beaches, mountains, wine, game parks, beautiful countryside, and it's all up for grabs. That is why we are moving so fast to establish ourselves as the prime five-star operator in the country," he says.

The key to a successful investment, according to Mr Schrocker, is to make sure entry into the market is structured carefully. "You must have an ear close to the ground, and to understand what is happening, particularly to demographics," he says. "If you do not anticipate the changes that are taking place you could be in trouble." He is relieved to have rejected a proposal for the Johannesburg hotel because the site now looks far less attractive as the business centre of the city moves progressively north.

But once established the prospects for further growth look promising. Although each of the three principal hotels has its own core market – Johannesburg for business travellers, Durban as an adjunct to the new conference centre, and Cape Town a mixture of business and tourism – the opportunity to tempt clients to stay for an extra day, or three, opens up the market for secondary destinations.

The Hilton Zimbali resort hotel, within an easy drive of Durban, yet close to beaches, a bird sanctuary, a new golf course, and eventually the new international airport, shows the way forward.

But it is not all plain sailing. Staffing, productivity, and the government's ability to bring down crime levels will all impinge heavily on the sucess of new hotel ventures. There is no problem about job applicants. Mr Schrocker has already received well over 4,000 applications for the 326-bed Sandton Hilton, which will operate on the ratio of about one employee for each room. A local agency will whittle applications down to about 1,000, each one of whom will be interviewed personally by the general manager.

"We prefer to find our own staff, rather than take from others," says Mr Schrocker. "That way it is easier to reach our own standards. And because this is a country in transition we need people with a wider focus. Sometimes they can be too concentrated on a particular issue. You have to get people on your side. If you do not you are in trouble. We have to give them the tools to do the job, to provide the skills they need."

Mr Schrocker prefers not to speculate on occupancy rates and their relation to profitability. "There's no common pool from which we can draw information, but once we've been open for three of four months we'll know."

Roger Matthews

Prudential

Managing a bit of variety

Financial services are the way back to South Africa for the UK's life assurer

Prudential, the UK's biggest life assurer, opened its first branch office in South Africa in 1932. The business was sold to Liberty Life in 1987, when sanctions forced the group to abandon a market share of 7 per cent.

In April 1994 Prudential was among the first foreign financial services groups to return to South Africa, and is the only global investment manager in Southern Africa to offer a locally-based asset management service for foreign and domestic clients.

Prudential Portfolio Managers handles assets worth R3.5bn (£487m) from its Cape Town office, of which about 80 per cent is held by South African clients. Mr Graham Mason, chief investment officer, attributes this growth to its use of novel risk management techniques. "South African fund managers tend to do stock picking, while we use a variety of styles and criteria which are well researched in the UK and the US, but are not yet popular here," he says.

An example is the "tilt" fund, launched this year. "This is the first and only fund in South Africa with a mandated value style. We look for value rather than growth, and buy cheap shares with low p/e ratios that are out of favour with other investors," says Mr Mason. Other services include a range of portfolios for the corporate sector, comprising all major asset classes, balanced portfolios and specialist fixed interest and equity mandates.

Mr Mason, a South African who worked with Prudential in the UK until 1992, started the new office but now employs nine staff managing funds on behalf of eight local institutions. These include the pension fund of Iscor, the steel producer, and African Life, the black-controlled insurance house. He estimates Prudential's market share is close to 1 per cent.

The group does not yet have the administrative capacity to cater for individuals, who have previously been barred by exchange controls from investing offshore. But Mr Mason says that in the wake of the relaxation of these restrictions in the March 12 budget Prudential "may market unit trusts here".

According to official figures, the Reserve Bank has authorised asset swops and offshore investments by local institutions to the value of R30bn. Transfers worth R17bn have been completed, of which Prudential arranged about R600m. The new offshore funds are subsequently managed by Prudential's sister companies, in line with the group's global strategy of managing assets locally, using local staff.

This policy has encouraged the recruitment of new staff. "There is a skills shortage, but because of our international connections we have attracted people who want a chance to keep up with foreign techniques." The South African business is a tiny component of a global organisation with offices in eight countries and more than £90bn of assets.

But its activities are expanding into Africa. Prudential currently manages assets for clients in Zimbabwe, and last year opened a new office in Namibia.

Next month it will launch a joint venture in Mauritius, which abolished exchange controls in 1995. Prudential will hold 35 per cent of the new company, with the balance held jointly between the State Bank of Mauritius and the State Insurance Corporation of Mauritius. "The whole area is very attractive to us," says Mr Mason.

Mark Ashurst

INTERVIEW • by Roger Matthews

New gateway to Africa

Alec Erwin, minister of trade and industry, sees opportunities for foreign producers

Alec Erwin: we are as attractive as any country at the moment

What advantages does South Africa have for foreign investors over other parts of the world, such as south east Asia or Latin America?

In terms of the basic environment we have in the last two or three years effected important changes in legislation dealing with our macro-economic situation which is very healthy.

I think we are as attractive as any country at the moment. This, with our political stability, the fact we are a democratic state, means we are a good destination.

But the comparison between us and east Asia may be a little misleading. We are especially important for those investors who see the African market growing, which it is doing. And increasingly we are aspiring to form an important bridge between the rapid growth in South America and in Asia and the Middle East. South Africa is going to become a very important manufacturing destination for export trade with both regions. We are very strategically located for this sort of south-south co-operation.

Is it the case that South Africa is a difficult market for foreign investors to gain a foothold because of the dominance of local conglomerates?

This is a perception of a previous era. An investor whose sole interest is the domestic market will find there is a fairly heavy concentration in a number of areas. But it is very different for an investor who wants to take advantage of both the local and export markets.

When investors look at South Africa as the access point for Africa, and as the fulcrum for trade between South America and Asia, then it is a new story. And we are also seeing signs of deconcentration in the local economy, caused by the way it is opening up, and the stricter implementation of competition policy.

We'll be reviewing competition law during the course of the year. The delays in introducing a new law are mainly due to the tremendous pressure the ministry has been under. We have up to now been putting most of our energies into the trade and investment situation. Competition policy will become one of our priorities in 1997.

Complaints are often heard, locally and internationally, about labour inflexibility, and relatively high wage levels. Are these justified?

They are both serious misperceptions, and there is independent corroboration of this. On the contrary, we have a pretty flexible labour market. It is not inflexible at all.

First, what the labour ministry will be working on is to streamline that flexibility within our industrial and training strategies.

Second, our unit labour costs are falling quite rapidly. Any investor should have a close look at the South African market, particularly areas such automobile components, which is a high tech, advanced industry.

South African labour is extremely competitive, skilled, well trained, and usually well organised with unions able to sign quite sophisticated agreements. As has been shown by its export performance, it is highly competitive.

What we shall see in the next year or two is the growing realisation that as a manufacturing destination South Africa is extremely attractive.

What has been your reaction to the response by the European Union to your proposals on trade and development?

We had hoped that we would get a somewhat out-of-the-ordinary package. We think it makes immense strategic sense for anyone interested in Africa's future. Progress was made in one or two areas, particularly on the importance of the Southern African Development Community. But in other areas, I am afraid, there has been very little advance. Agricultural exclusions remain a major stumbling block.

The EU has made a very unattractive proposition. We also remain unclear whether there is an intention to link this to a wide range of other agreements. We have had a somewhat uninspired response to some of the other proposals we made on financial restructuring packages which would allow South Africa to play a much more active role in cross-border investment.

We have still not been able to see from the EU whether we are going to break some conceptual barriers, or whether it is to be just an ordinary trade agreement. If it is to be no more than that, we do not have the resources to treat it as a priority. Our priorities would then have to turn to SADC, and trade with Asia, the Middle East and Latin America where, without question, the greatest changes in trade and highest growth rates are being achieved.

Following the expected success of the sale of a 30 per cent stake in Telkom to overseas buyers, is the pace of privatisation likely to accelerate?

As we have often indicated, what we are talking about in our public sector – and earlier we were not as clear on this as we are now – is a massive restructuring. The Telkom deal has been difficult and complex, but is relatively easy compared with the transport and petrochemicals sectors. We need to do quite a bit of financial re-engineering before it makes sense to enter the sort of deal we did with Telkom.

The smaller privatisations, such as the radio stations, Sun Air and Aventura, are going about as fast as could be expected. So it is not a case of government being hesitant to go forward. It is about government's ability to carry out a really massive re-engineering of sectors before we can proceed with deals such as Telkom. We would have made a very serious error if we had moved without proper preparation, and would later have been called to account.

BLACK EMPOWERMENT • by Mark Ashurst

Symbolism starts to lose its shine

The transfer of assets to black ownership will take place more soberly in future

It is easy to be cynical about the transfer of white-owned assets to blacks in South Africa. The process is proclaimed as black economic empowerment, but has been much criticised by elements of big business, the labour movement and the African National Congress for having created a handful of instant millionaires.

Such sentiments are well founded, but perhaps short on perspective. Asset transfers have allayed fears of more radical redistribution among many whites, and underpinned the shift towards market-oriented policies in the ANC. "The importance of these deals is that they have created a symbolic black holding class," says Mr Jos Gerson, chief economist at Smith Borkum Hare. "That will last until organic entrepreneurs emerge."

The transactions have also fostered new skills among an array of black consortia and tested their ability to raise capital. This is especially true of the two biggest and most recent deals: the sale by Anglo American of its controlling stakes in Johnnic, an industrial holding company with a market capitalisation of R10bn, and JCI, the world's sixth biggest gold producer.

There are telling differences between the two deals. Johnnic, a holding company with a diverse portfolio of minority stakes in blue chip companies, was sold at a discount of 7 per cent to the market price to a broad-based consortium of black business and trade union groups.

Rival bidders eventually united, after some prompting from Anglo, under the leadership of Mr Cyril Ramaphosa, the former secretary-general of the African National Congress who quit politics in May last year.

Mr Ramaphosa's company, New Africa Investments, provided financing for smaller members of the consortium through its controlling stake in Metropolitan Life, the leading insurance company in the black consumer market.

As a former leader of the National Union of Mineworkers, Mr Ramaphosa's influence helped marshall the various union groupings into a single consortium which – in the absence of a rival bid – enabled them to negotiate the discount. This in turn attracted local institutions, which gave trade union investment trusts access to their members' pension funds. In the event that the new owners default on these loans, Johnnic shares will revert to the institutions.

By contrast, JCI was sold in November at a premium of 10 per cent to the market price, to African Mining Group, which outbid a rival offer from New Africa. The deal gave birth to South Africa's first black-controlled mining house and last week installed Mr Mzi Khumalo, a former political prisoner and chairman of financial services group Capital Alliance, the lead member of the consortium, as chairman of JCI.

Unlike previous black empowerment transactions, the deal was much feted because it involved a competitive bid, a strike price at a premium to the market, and the disposal by a white-owned conglomerate of a controlling interest in a core business. In that context, Mr Khumalo, who spent 12 years with Mr Nelson Mandela on Robben Island, the notorious jail for political prisoners, has also been acclaimed as the most entrepreneurial of the new generation of black business leaders.

A little-known figure outside the financial services industry, Mr Khumalo eschewed the sale of Johnnic, whose portfolio includes a minority stake in South African Breweries. "I couldn't think what I would do with a seat on the board of SAB," he said in an interview, "I am very clear that I am moving into a controlling position." Buying JCI was his first experience of a deal motivated by black economic empowerment, he said. "I have never gone into business because I know Nelson Mandela. That doesn't add anything to the bottom line."

Despite these accolades, African Mining Group has struggled to finance the R2.9bn acquisition. The premium included in the price subsequently doubled as weak bullion prices caused the Johannesburg gold index to drop by 10 per cent in December. A key member of the consortium, Thebe Investments, abandoned the bid, and local institutions were deterred by the decline in JCI's market price. The consortium failed to raise the cash ahead of the February 28 deadline.

The institutions were subsequently accused by Mr Khumalo of a cynical and short-term approach to investing in black business. "There is a feeling among institutions that black people can get into these assets with zero risk because we have the right profile," he told a local magazine.

The episode highlights the divergent interests of both white institutions, and cash-strapped black businesses, in facilitating such high profile transactions. Ultimately, AMG was assisted by an Anglo subsidiary, Southern Life, which with SBC Warburg, adviser to both Anglo and the African Mining Group, partially underwrote a rights issue at Saflife, a part of the Capital Alliance group. Another Anglo company, First National Bank, provided a bridging loan of R500m.

The sale has boosted the proportion of South African equities controlled by black groups to 2.5 per cent of the market capitalisation of the Johannesburg Stock Exchange. While these groups have comfortably outperformed the overall index, their size is unlikely to be boosted by more asset transfers in the near future.

"I don't think there's much appetite left in the market for the big deals," says Mr Jacko Maree, managing director of Standard Corporate and Merchant Bank.

But while financing pressure will favour smaller deals, there is a clear increase in joint ventures and other ties between established groups and new black businesses. This is evident throughout the retail sector, ranging from security and funeral services to information technology.

"A lot of corporate clients feel there are businesses that would benefit from a different shareholding structure, and are available for sale or joint ventures," says Mr Maree. The era of symbolism is drawing to a close.

Cyril Ramaphosa: headed a consortium which bought Johnnic

JAPANESE FINANCE

The fuse has been lit to make Tokyo markets as efficient and open as those in London and New York, writes **William Dawkins**

Ambitious plan for change takes shape

There is a tantalising feeling in Tokyo's financial markets that the long-overdue restructuring of financial Japan may at last be beginning.

Appearances can be deceptive. But there are real signs that the government and at least the strongest of Japan's afflicted banks and stockbrokers are committed to tackling their high costs, lack of innovation and weak risk management, fostered by decades of government protection and cartel-like practices.

Evidence of this new determination to shape up is the government's commitment, last November, to a financial "big bang", in which barriers between stockbroking, banking and insurance are to be demolished, and commissions on all kinds of transaction from sales of equities to insurance policies to be deregulated by 2001.

It is an ambitious plan by any standards. It marks a significant change from the old, gradualist approach to freer markets, designed to allow financial institutions to chip slowly away at their problems in the vain hope that they would eventually be bailed out by a lasting economic recovery.

The fuse for the "big bang" has already been lit. Draft legislation was adopted by the cabinet two weeks ago for the current session of parliament, ending in mid-June, to lift the last remaining foreign exchange controls. Once that is done, Tokyo's dwindling financial markets could vanish offshore unless the authorities deliver on their plan to render Tokyo as efficient and open as London and New York, say the plan's proponents.

That self-imposed threat means there is a compelling self-interest in more financial deregulation. Another draft bill would lift a ban, more than 50 years old, on the formation of holding companies, thus paving the way for the diversified financial institutions which prosper in London and New York, but which Japan lacks.

There are, of course, reasons to be sceptical. Much depends on the fine detail of how the "big bang" will be implemented. Some in government and the financial industry still hope for a soft landing. The latest scandal at Nomura Securities, in which Japan's largest stockbroker appears to have been giving favourable treatment to a property company connected with gangsters, shows that old habits die hard.

And yet there is a palpable shift in the general mood in favour of financial reform, evidenced by pro-reform rhetoric from top policymakers and executives, and in some cases actually backed up by action.

Ironically, Nomura itself is part of this trend, as shown by the progress it has made in making its domestic business more sophisticated.

It is not the only one to be seeking to reinvent itself these days. Mr Eisuke Sakakibara, director-general of international finance at the finance ministry, who once wrote a book arguing that western free market economics are unsuitable for Japan, now says that collapses of uncompetitive financial institutions will be inevitable.

This is more than rhetoric. He also happens to be the ministry's driving force behind the plan to lift foreign exchange controls.

Mr Sakakibara's political master, Mr Hiroshi Mitsuzuka, the finance minister and leader of the ruling Liberal Democratic party's most conservative faction, responded to the stock market collapse in January by saying that the market must be allowed to find its own level, without the artificial prop of government price support operations, which have covertly slipped into place so often in the past.

The politicians' and bureaucrats' new penchant for a free market is shared by many – even if not all – in the finance industry. Senior stockbrokers now argue that freely-negotiated commissions are just what they need to revive turnover, still only just over the 300m shares a day at which the "big four" brokers make money, rather than, as in the past, claiming that they could not afford to deregulate commissions precisely because turnover was so low.

All this invites the question of what triggered Japanese executives' and policymakers' apparent conversion to faster financial market reform. A combination of factors are at work.

First is the growing realisation that the vigorous domestic economic growth of the 1980s, when Japan's financial institutions were set to dominate world markets, is not going to be repeated.

The Japanese authorities took desperate measures to revive the economy in late 1995 by cutting the official discount rate to 0.5 per cent – at which it remains – and by launching the largest public spending package in Japanese history, Y14,000bn. Sure enough, the economy did pick up, but not enough to restore financial institution's long-term profitability. Gross domestic product is on track to grow by close to 2.5 per cent in the current fiscal year ending this month. It will be a short-lived recovery. Most economists, including government ones, expect growth of less than 2 per cent next year, with only a slight acceleration towards the end of the decade.

Low interest rates and a modest growth have helped the strongest banks write off some of their most urgent problems, their pile of bad loans, but without resolving what caused them to make so many high-risk loans in the first place – the existence of too maoy banke chasing too few customers.

The top commercial banks announced in the first six months of the curreot financial year the first reduction in their own bad debts since the collapse of the asset price bubble seven years ago. But that does not include their many hundred non-banking financial affiliates, whose bad debts may be even greater than those of the main banks.

Many regiooal banks, credit unions and agricultural co-operatives are still in the mire.

A growiog oumber of weaker financial institutions have foundered – or at least appeared to do so – over the past year. They include Taiheiyo, the second listed bank to go into liquidation since tha second world war, and seven non-banks, including Nichiei Finance, the largest corporate collapse since the war. The catch is that thay continued to operate under new owners, so that over-capacity remains.

But a potentially eignificant move towards the real, rather than apparent, removal of non-performing banks from the system took place in November when the finance ministry ordered the closure of Hanwa, a small regional lender.

It was the first time tha government had closed a bank in more than half a century, and was widely interpreted as a sign that more insolvent lenders will be encouraged to fail.

The finance ministry's policy is that small depositors are to be bailed out, in the worst cases with public money, but shareholders will not be protected.

IN THIS SURVEY

Production Editor: Ian MacDonald
Design: Philip Hunt

Of course, there are limits to the extent to which the government is prepared to countenance a wave of financial collapses. When rumours surfaced last month that one of the larger lenders was about to go under, Mr Mitsuzuka responded that the government would guarantee the safety of the top 20 banks.

Subsequent leaks to the Japanesa press that the euthorities are considering using more public money to buy land – held as collateral against most of banks' bad debts – were another reminder that some in the government are inclined towards a softer resolution of the banks' problems than took place, for example, in the US in the early 1990s.

Even so, the stock market appears to believe that a soft landing for the financial system is increasingly difficult

Continued on Page 6

BANKING • by William Dawkins

Structural problems remain

Main business is barely profitable, and prospects for the future do not look bright

Equity markets sometimes overshoot, but they rarely lie. That is certainly true of the hammering that the shares of Japanese banks, which number some of the world's largest as well as least profitable, have received over the past six months.

It might, on the surface, seem odd that the share price collapse happened soon after the top 10 commercial banks announced, in their interim results last autumn, the worst of their bad debt problems were over. Non-performing loans had fallen for the first time since the collapse of the asset price bubble six years ago, by 6.6 per cent from the end of the previous fiscal year to March, to Y14,000bn by the end of September.

And yet, as investors have come to realise, the bad debt problem is only a manifestation of a deeper, structural weakness. Banks' main business, wholesale lending to Japanese companies, is barely profitable. No improvement is in sight.

The bad debt problem on its own is bad enough to continue to give investors the jitters.

For one thing, the scale of the recent bad debt reduction by the big commercial banks, the healthiest in the system, is unlikely to be repeated in the near future. This is because, says Ms Alicia Ogawa, financial analyst at Salomon Brothers Asia, around 90 per cent of the fall in bad loans in the first half of this fiscal year was achieved through an unusual one-off package deal for the resolution of the bankrupt *jusen* housing loan companies. That came with the help of a politically unpopular government subsidy, very unlikely to be repeated.

For another thing, the financial system's total bad debts are still hard to guess because of the unresolved asset problems of the hundreds of non-bank lenders affiliated to the top banks, but not stated in their balance sheets.

Some estimates put the top 20 banks' total bad debts at Y46,000bn, nearly 12 times combined annual operating profits, or one-tenth of Japan's gross domestic product. This includes long-term credit and trust banks as well as the big commercial lenders.

While huge, this does not pose a direct risk to the stability of the system, since the finance ministry has guaranteed the top 20's survival until the end of the decade. But a recent series of collapses of non-bank affiliates has forced up the premium which their bank parents must pay to raise money abroad.

For most of the post-war period, banks existed as instruments of industrial policy. Their job was to channel Japan's vast pool of savings to manufacturing industry.

Returns, on admittedly high lending volumes, were low. But shareholders did not object, because they tended to be the very industrial customers who benefited from that dependable supply of cheap debt. The banks themselves were partly compensated by being allowed to form cartels – commercial banks for short-term loans and long-term lenders for capital spending.

That arrangement started to come under strain in the early 1980s when Japanese industrial companies started to move elsewhere, to cheaper and more flexible international bond markets, to borrow money. Japanese law at the time forbade banks from handling bond issues, so they rushed to fill the gap by lending to the then booming domestic property market.

They are only now starting to disentangle themselves from the ensuing property collapse. In addition, long-term credit and trust banks were allowed to underwrite corporate bonds in 1993, followed by commercial lenders a year later. These limited new freedoms are to be enlarged by more deregulation in the next four years. In the meantime, the competition for straight commercial lending remains cut-throat.

In consequence, the top 10 banks' return on assets averaged a mere 0.53 per cent last year, according to UBS Securities in Tokyo, less than a quarter of the return achieved by US competitor Citicorp.

Lending will probably increase by a mere 2 per cent this year, according to banking analysts, and much of that will be done on razor-thin margins. This matters more to Japanese commercial banks than most because loan interest represents 85 per cent of operating revenues, far higher than US competitors.

After an unusually good 1996, when Japanese commercial banks' earnings were swollen by one-off bond market gains, it is no surprise that they expect operating earnings to fall by one-third for the year closing at the end of this month.

Worse, the squeeze on profits is long term. Japan remains heavily overbanked, at least for the size of its economy. Even after a decline during the post-bubble economic slowdown, outstanding bank loans currently total Y475,000bn, about the same as gross domestic product. In the US, the comparable figure is just over one-third of GDP.

So how are Japan's banks to haul themselves out of the mire? One way of improving profitability is to cut costs, but no bank has yet announced a substantial job reduction plan.

Another option is to move into more profitable businesses. Many have already opened bond underwriting subsidiaries. The government's plan to eliminate barriers between banking, stockbroking and insurance by 2001 could open more potentially lucrative opportunities. But it will also open the way to greater risks, something which the property lending experience has shown that Japanese banks are ill equipped to manage.

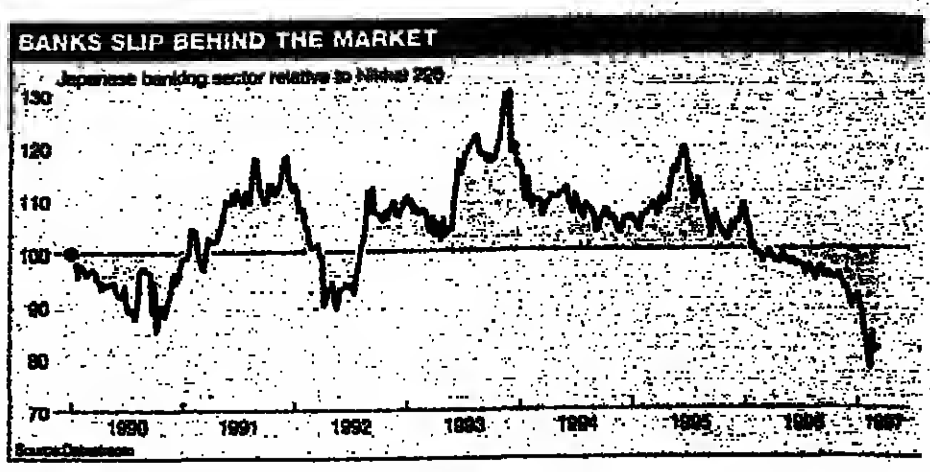
None of this helps banks tackle another problem, the decline in their capital ratios triggered by the more than 50 per cent fall in share prices over the past seven years. They are allowed to count unrealised gains on their equity portfolios towards the 8 per cent minimum capital they must hold as a proportion of risk weighed assets, under international regulations.

That leaves Japanese banks with two options: to raise new capital or shrink assets. The top 20 raised, in total, Y886bn in new equity last calendar year, but are unlikely to be able to pull in much more than Y500bn in 1997 because the fall in bank shares prices forced them to miss the early part of this year, says Mr David Threadgold, banking analyst at BZW Research in Tokyo.

As for shrinking assets, so far Sumitomo Bank and Long-Term Credit Bank of Japan are the only two to have announced serious plans to cut unprofitable lending and sell some of their equity cross holdings.

A growing number of senior bankers and policymakers now accept that the vital missing element of a real recovery for their industry will be the closure of the many barely-profitable institutions, mostly smaller regional banks, which are unable to adapt.

BANKS SLIP BEHIND THE MARKET



CENTRAL BANK • by William Dawkins

More autonomy for BOJ

Changes expected to allow faster and more flexible decisions on monetary policy

Japan is about to join the growing list of countries to give their central banks more autonomy. But will it make any difference to the conduct of monetary policy?

The government is planning to submit to parliament a bill proposing to give the Bank of Japan (BOJ) more freedom to set monetary policy. Economists and policy makers feel the change is overdue.

The BOJ was established under the Meiji administration in 188 as a vehicle for Japan's high-speed industrialisation of the time. Its most recent reorganisation was in 1942, when modelled on Nazi Germany's Reichsbank and made clearly subservient to the finance ministry. Under its present articles, the ministry can order the BOJ to "undertake any necessary business", and the cabinet is empowered to dismiss the governor if he disobeys.

That set-up was deemed suitable for the centrally-regulated Japanese economy of the war and post-war reconstruction, but is widely accepted as less appropriate today, when the need to achieve currency stability in volatile and increasingly global financial markets is the prime aim of many leading central banks.

The BOJ's new role was sketched out in a report by the Financial System Research Committee, an advisory panel to the finance ministry, published early last month. It will be the basis of an amendment to the 1942 BOJ law, for adoption – barring any unexpected political crises – in the current parliamentary session ending in mid-June. The new arrangements would come into effect in April next year.

Mr Toshihiko Fukui, the BOJ's senior deputy governor, says the changes would allow the bank to make monetary decisions faster and more flexibly, and help it gain more credibility from the financial markets. The proposals would give the BOJ about the same level of autonomy as the Banque de France in that it would be legally free to set interest rates, but must co-operate closely with the finance ministry, according to a former senior BOJ official. In exchange for this greater autonomy, it will be asked to be more public accountable for its actions.

In detail, the main proposed changes are as follows: a new BOJ policy board, to set official interest rates, would include nine members, including the governor and two vice-governors, plus a panel of independent 'wise men' from diverse private-sector backgrounds, similar to the albeit larger Bundesbank council. Presently, the BOJ has a smaller seven-man policy board, including two representatives from the finance ministry and the government's economic planning agency, plus an internal directors' board, which is to be scrapped.

Under the new regime, government representatives would only be invited by the BOJ to attend policy meetings "where necessary". The finance ministry would have the right to ask the board to delay a decision until its next meeting, but would not, as at present, be allowed to order an indefinite postponement of decisions. The new policy board would meet twice monthly.

For the first time, the policy board would publish its minutes, as do the US Federal Reserve and the Bank of England. This is one of the most important innovations in the proposals, intended to make it clear if and in what manner the government is influencing the central bank. The governor would also have to deliver a written report to parliament twice a year, rather than just once.

Under the new proposals, the BOJ would have more responsibility, though not much more, for its own operations and own budget. The finance minister would no longer be allowed to inspect the bank directly, but could still ask the bank's own auditors to do so. Its budget would continue to be approved by the ministry but the minister would only control costs relating to activities other than the conduct of monetary policy and would have to publish any reason for rejecting the BOJ budget plans.

The proposals also seek to make clearer on what conditions the BOJ should step in with collateral-free loans to help private-sector banks in trouble – only when such banks run out of cash because of computer crashes or other accidents. It will be up to the finance ministry, rather than the BOJ, to decide whether to bail out genuinely insolvent institutions – a crucial political job, given that the government's ambitious plans for financial market deregulation by 2001 imply that weaker institutions could well collapse in the ensuing competitive earthquake.

What this means for the way the world's second largest economy handles its monetary policy depends most of all on the character of the governor.

Economically, the bank already performs much like independent central banks. No independent central bank ran high inflation rates in the 1980s, but then neither did a dependent BOJ, with the exception of the sharp rise in asset prices late in that decade. Even despite that experience, Japanese consumer prices have been the most stable of any member of the OECD since 1980, points out Mr Russell Jones, economist at Lehman Brothers in Tokyo.

Yet at the same time it is widely accepted that the BOJ did suffer from unwelcome political interference in 1972, when the government of the time encouraged it to cut the official interest rate earlier than it would have liked, with a consequent short-lived burst in inflation.

Significantly, the proposals say nothing about the long-standing informal agreement under which the governorship alternates between officials of the BOJ and finance ministry, one way in which the ministry keeps an intermittent eye on the bank.

The incumbent, Mr Yasuo Matsushita, comes from the finance ministry. Having distanced himself from old colleagues by obtaining a more autonomous status for the BOJ, it will be up to him to decide how far to make use of that independence.

PENSIONS • by Richard Lapper

Liberalisation accelerates

Pressures of an ageing population and funding shortages are forcing the pace

Demographic pressures and chronic funding shortages are forcing the pace of liberalisation in Japan's private pension market. Change, which has been under way in the Y40,000bn corporate pension fund (or employee pension fund) since 1990, is set to accelerate this year as a result of an important modification in the way fund managers account for investment performance.

The gradual build up of demographic pressures, combined with weak performance by the life insurers and trust banks who have traditionally dominated pension fund management, underpin the rationale for reform.

Japan's population is now ageing at a faster rate than that of any other advanced industrial economy, with the number of people aged over 65 scheduled to reach more than a quarter of its population by 2025 compared to about 14 per cent at present.

Over the past 10 years, however, local pension fund managers have made feeble investment returns, making it increasingly difficult for funds to meet legal obligations to provide a 5.5 per cent annual investment return to scheme members.

Fund management performance has been hampered by restrictive regulation and undermined by the poor performance of the domestic economy in the 1990s. Until recently, fund managers have been subject to strict limits on their investment policy, being obliged to allocate at least 50 per cent of their assets in the low-yielding fixed-income market, and no more than 30 per cent in domestic or overseas equities and no more than 20 per cent in property. The combination is known locally as the 5-3-3-2 rule.

According to recent research by Nikko, the Japanese securities house, returns have averaged only 5.9 per cent annually since 1985 and have fallen below 3.5 per cent during the past two years. Life insurance companies have twice reduced the guaranteed rate of return they offer to pension funds, cutting the rate last year from 4.5 per cent to 2.5 per cent.

Actuaries suggest that corporate pension funds could be underfunded by as much as 40 per cent. Their problems are particularly severe in declining industries such as textiles – where the number of workers contributing to schemes is falling rapidly – and have been highlighted by the collapse of four schemes during 1996.

Reform has proceeded along two channels.

Firstly, the ministry of finance has relaxed the 5-3-3-2 rule: since April last year the regulation has been applied only to an individual pension fund as a whole rather than to each of the separate pools of assets administered by a fund's managers (a typical fund might employ half a dozen managers).

Fund managers can also apply to be exempted completely from the rule. So far, pension funds have been cautious to embrace the changes – by December last year, for example, only six funds had applied for exemption from the 5-3-3-2 rule. But the numbers look set to increase, partly as a result of other changes.

Later this year, Japanese accounting rules which have contributed to poor performance are to be overhauled. As a result of changes scheduled to take effect from April, fund managers will need to mark the value of their assets to market prices rather than accounting for them at historic cost. Analysts say that existing arrangements had encouraged managers to sell assets that are performing well and retain those that perform badly.

Secondly, competition has been introduced into the pension fund management industry. Restrictions on the the activities of independent fund management companies, usually the subsidiaries of Japanese or foreign securities companies and banks, have been eased. These so-called "independent managers" can now manage new pension fund money and up to half of the existing assets of a fund, rising to all of a fund's assets in 1999.

It has also become easier for pension funds to change their investment managers, while independents have won access to a small chunk of the some Y150,000bn in public sector pension assets. Nempuku (the Pension Welfare Service Public Corporation), which administers about one-fifth of this amount, has traditionally allocated fund management responsibility to life companies and trust banks. Last year, for the first time, Nempuku was allowed to award contracts to new independent groups, and in April asked a number of independents to manage some Y3,800bn.

Growing activity by the independents has been a striking feature of the market in recent months, with the subsidiaries of Japanese securities houses – such as Nomura, Nikko, Yamaichi and Daiwa – and a small number of foreign houses winning significant chunks of business.

Mr Darrel Whitten, director of research at Lehman Brothers in Tokyo, says that between March 1995 and last October the "big four" increased the corporate pension contracts they manage by 85.4 per cent to Y890bn. By the end of September 1996, 358 funds – or more than one-sixth of some 1,830 corporate funds – had awarded a total of 1,283 contracts to independents, according to Nomura Investment Management (Nimco), the security house's fund management arm.

More than a third of those contracts – a total of 531 contracts by 66 pension funds – were awarded since the beginning of April. Nearly 200 more pension funds are preparing mandates for independent managers. Overall, independents now have an estimated 7 per cent share of the corporate pension market, up from 0.6 per cent in 1990 and 2.7 per cent in 1993.

Mr Luke Nobuo Katayama, director of Japanese pension fund investment at Nimco, says his firm has been bidding for up to 10 mandates a week from company pension funds.

Japanese companies are overcoming their initial reluctance to award mandates to foreign groups, according to Mr Clifford Shaw, the president of Mercury Asset Management Japan in Tokyo. MAM, Schroders, Jardine Fleming and Deutsche Morgan Grenfell, and Hill Samuel Asset Management (which has an alliance with Dai-Ichi Kangyo Bank) are the foreign groups with the biggest market share, according to industry calculations.

What does the future hold, Madam Fortune Teller? For Japan's rapidly ageing population, financial hardship without reforms of the country's pensions market

Photo: Ashley Ashwood

INSURANCE • by Richard Lapper

Shake-up to change face of industry

Foreign insurers lead calls for radical reform of product ranges and prices

Few areas of Japan's "big bang" are likely to prove as controversial as the planned deregulation of the insurance industry.

December's trade agreement between Japan and the US lays down a programme for radical reform of an industry which has been the most regulated within the economically developed world. Under pressure from the US and a handful of foreign insurers, the government has agreed to allow insurers to sell a broader range of products and set their own prices.

If implemented to the letter, the deal will introduce fierce competition into an industry traditionally run – in the words of one local analyst – as a "public service oligopoly".

In the non-life eector, which sells commercial and personal lines policies, five companies – Nippon, Sumitomo, Yasnda, Tokio and Mitsui – account for more than half the market. Japan's life business is dominated by eight huge companies.

Rates are set by the ratings associations, themselves controlled by the large local companies, and both rates and policy wordings must be approved by the ministry of finance.

Policies are relatively cheap, but by western standards service is slow and the industry inefficient. According to analysts, the expense ratios – operating expenses as a percentage of premiums collected – average 40 per cent, several percentage points higher than in either Europe or the US.

The system is defended in Jepan on the grounds that it has secured stability in an industry rocked by a wave of bankruptcies in the 1920s and 1930s. Japanese insurers argue that rate competition will have damaging social consequences and increase risks and claims. For example, they say, moves to allow bigher insurance rates for more dangerous or less experienced drivers will result in uninsured cars on the roads.

The association also opposes moves to allow insurers to sell policies by telephone or by direct mail; favoured by foreign companies on grounds of increased efficiency.

Domestic insurers have moved to take advantage of new freedoms introduced before the December agreement. Last April, restrictions preventing domestic life and non-life companies from entering each others' markets were lifted. By the end of November 1996 six of the country's 27 life companies had established non-life subsidiaries, while 11 non-life companies had set up life companies, according to the finance ministry. But the local industry is still largely opposed to change, which it condemns as too rapid and too drastic.

Pressure for change has come mainly from foreign insurers, seeking to take advantage of their greater efficiency in order to build up their share of the Y12,600bn non-life market, which currently stands at about 2 per cent.

Since the late 1980s foreign companies have been granted limited access to the non-life market – mainly to write health and personal accident business, known in Japan as "the third sector" – bnt are now particularly keen to build a share of the motor market, which accounts for roughly half Japanese premium income.

Although foreign companies are free to enter the market they argue that deregulation will be necessary if they are to compete successfully and these arguments have been supported by the US government in its bilateral trade talks with Japan. Some changes were agreed as part of a broader US-Japan accord.

For example, since the beginning of April last year insurers have been able to vary – albeit within tight limits – the amount of the premium which is charged to cover the expenses incurred in underwriting and selling a policy. The finance ministry has also allowed insurers to sell non-life policies by direct mail or telephone, rather than by relying on the independent sales agents who dominate distribution of non-life policies.

American Home Insurance, a eubsidiary of the American International Group, began a direct sales operation towards the end of last year, and licences have been awarded to five other foreign companies.

However, the December trade agreement outlines a programme for more radical change. In larger commercial risks, the limit above which insurers can compete freely on price was reduced in January from Y30bn to Y20bn. Next April that limit will be reduced to Y7bn. In July next year insurers will be freed from the obligation to use rates set down by the rating organisations, paving the way for complete price deregulation in January 2001.

On paper these changes meet the demands of foreign insurers and ehould help them win more business. Mr Ian Carroll, president of the Foreign Non-Life Insurance Association of Japan, believes that foreign companies have more skill in rating both more complex engineering risks as well as standard risks like motor or home and – at least in their own markets – operate more efficiently than their Japanese rivals. Mr Carroll says direct motor "will take off very fast".

THE EQUITY MARKET • by Richard Lapper

Nikkei sharply out of line

Financial reform is expected to lift prices, but some feel there's more pain first

Six years after the Japanese stock market reached its highest level, a combination of fiscal tightening and financial deregulation has sent the market plunging again.

The recent fall in prices has simply underlined the fact that the Nikkei – a star international performer of the late 1980s – is sharply out of line with a trend which has seen American and European equity markets climb to new highs in recent weeks.

Japanese stock values are now less than 50 per cent of their 1989 peak and – although promised financial reform should help the market regain its feet in the longer term – some observers argue that prices have further to fall.

Last December, with the Nikkei 225 trading sluggishly at little more than 50 per cent of its historic peak achieved at the end of 1989, government moves to tighten Japan's fiscal deficit sent the market sinking lower. According to economists, the measures – consisting of a rise in consumption tax from 3 to 5 per cent, plus an end to a temporary income tax rebate – will remove 1.6 per cent from 1997 gross domestic product, a devastating blow for a market already digesting the implications of a downturn in the immediate outlook for economic growth and corporate earnings.

In little more than a month, the Nikkei shed more than one-seventh of its value. Financial deregulation – Japan's "big bang" announced in the autumn – has, in the short term at least, made matters worse. The reform threatens to further undermine the financial sector, whose profitability has been guaranteed historically through highly-regulated and oligopolistic market structures.

The shares of banks, insurance companies and securities houses have been particularly hard hit in the recent sell-off, partly for this reason. In addition, though, many financial sector companies are particularly vulnerable to weakness in the share market since they depend on unrealised share market gains for part of their profits. The overall fall in the market has therefore made their shares even less attractive to investors, in turn contributing to a further decline.

Yet in the longer term the deregulation programme is necessary for the market's recovery. In a narrow sense it will increase the efficiency of the banks and securities houses. Measures such as deregulation and the removal of barriers separating the businesses of banking and the securities industry should encourage rationalisation. More importantly, it should help Japan's capital markets function more efficiently. Share buybacks should become easier, potentially reducing the pressure caused by the high level of share issuance in the last couple of years.

The reform of rules governing the operation of the pension fund system makes it easier for fund managers to buy overseas equities and bonds as well as exercise more pressure on local companies to increase a return on capital which has fallen from just under 12 per cent in 1980 to under 3 per cent in 1995.

Last April, the rules governing the amount of their portfolios pension fund managers could invest in separate classes of financial assets were loosened. At the same time, both private corporate funds and the public sector's welfare fund (Nempuku) are now allowed to place a greater proportion of their assets with independent pension fund managers, who tend to favour investments in the domestic equity and foreign securities markets.

There are already some signs that the market is becoming more discriminating. Investors suggest that there are now much greater differences between the way different companies perform than was the case in the past.

During the first few months of 1997, as the market has regained some of the ground lost since December, a sharper-than-usual difference has been apparent between Japanese companies. In particular, the shares of companies which benefit from the current weakness of the yen – such as makers of precision equipment and the stronger car and electronics companies – have done well, while those of companies oriented to the domestic market have fared poorly.

Investors point out that while the index as a whole might not advance strongly, Japan will still produce some good performances by individual stocks.

Even so, many analysts argue that a further fall in Japan's equity markets is likely. Even at its current levels, the market – measured by conventional valuation yardsticks – looks hugely overvalued compared with Europe and the US.

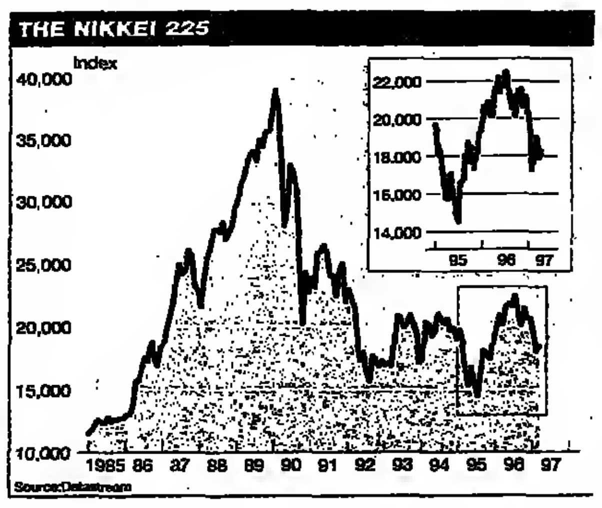
Despite its recent decline, the market in mid-February was still on a historic price earnings ratio of about 50, three times the level of the UK, more than twice the level of the US and twice as high as a rapidly-growing emerging Asian market such as Malaysia. The market's dividend yield of 0.85 was less than one-third of that offered by the UK, and half that available to investors in US equities.

Writing recently, Mr Andrew Smithers, of the London-based Smithers and Co, described how the rationalisations frequently used by foreign investors to justify buying Japanese shares have become "increasingly suspect". Many profit forecasts have "been habitually overoptimistic", liquidity has not expanded as the "banking system has acted as a liquidity trap" and "low interest rates have not encouraged individual investors to switch deposits into shares".

In addition, claims that shares can be valued relative to interest rates have been shown to be hollow since "the stock market has more often weakened than risen when interest rates have fallen".

According to the so-called "Q" ratio, which compares a measure of the real net worth of corporate equity with the value currently ascribed to it in the stock market, the Tokyo market is at least 60 per cent overvalued, says Mr Smithers. Because land has been such an important part of the corporate balance sheet in Japan, and because land prices have fallen even more than shares, the stock market "appears even more over-priced than it did at the height of the bubble".

THE NIKKEI 225



Source: Datastream

CASE STUDY Kosei Securities

A lesson for the big boys

Talk to securities industry analysts in Tokyo and two very different companies tend to crop up as preferred stocks.

One is Nomura, the largest of the "big four" stockbroker firms. The other is the tiny Osaka-based Kosei Securities, arguably the most consistently successful of a handful of smaller companies listed on the stock exchange in the late 1980s.

Kosei has recorded operating profits in each of the last seven years, often bucking the trend in an industry which has been blighted by the stagnation of the Japanese equity market. In the full year to last March, it recorded operating profits of Y407m on sales of Y3.25bn.

That performance followed Y300m on sales of Y3.39bn in 1995, Y478m on sales of Y4.03bn in 1994, and Y811m on sales of Y5.14bn in 1993.

Kosei's secret is two-fold. Firstly, unlike the majority of the 25 listed securities groups it is highly specialised, earning up to half its revenues from trading, mostly of financial derivatives.

Secondly, its founder and chairman, Mr Goro Tatsumi, has kept a firm hand on costs, reducing staff levels quickly following the collapse of the bubble economy in 1990.

Between a half and one-third of Kosei's income came from derivatives trading in the six-month period period to September 1996, although the contribution has been as much as half in recent years.

Unlike the majority of small and medium-sized companies in the sector it has eschewed retail broking and avoided the costs and overheads of the network of branch offices that go with it.

In the first half of the 1996 fiscal year just under half of revenues came from commission income, but almost all that was earned from a group of commercial clients.

"It is a strategy which is unique in this market," says Mr Paul Heaton, analyst at Deutsche Morgan Grenfell in Tokyo.

The advantage of this focus is that Kosei is perhaps less dependent on the volume of shares traded than any other broker. According to one recent estimate, volume on the Nikkei has only to reach 39m per day before Kosei can break even. For every other broker, a trading volume of at least 220m shares a day is required, and for some medium-sized companies which expanded their branch networks quickly during the late 1980 volumes have to rise to more than 500m, a figure not exceeded since 1989.

By contrast, Kosei benefits from volatility in the markets, which has been at relatively high levels over the past five years and which can be expected to increase as financial deregulation proceeds. The speed with which Mr Tatsumi moved to close overseas branches and reduce the domestic branch network marks him off from his colleagues at other firms. Since 1991 Mr Tatsumi says staffing at Kosei has been reduced from around 500 to 160.

Mr Tatsumi argues that his organisational structures are flatter and "more agile" than those typical of other securities firms, which makes it possible for Kosei to take decisions faster and respond more quickly to business opportunities.

Richard Lapper

SECURITIES INDUSTRY • by Richard Lapper

Brokers need volumes

Quieter markets have put severe strains on some small firms reliant on commissions

Financial deregulation is set to accelerate the restructuring of Japan's securities industry, much of which has been weakened by the decline in volumes in the equity market in recent years.

Among Japan's more than 250 securities brokers, many smaller firms are heavily dependent on commission income earned on the transactions they carry out in the equity market and are exposed as price competition takes off. Many analysts predict a shakeout, with bigger companies absorbing their weaker rivals. "Japan doesn't need this number of securities companies," says Ms Mineko Sasaki-Smith, chief economist at CS First Boston in Tokyo.

Commission rates on transactions over Y1bn were liberalised in 1994, and the ministry of finance said in November that fixed commission rates – which vary from 0.1 per cent to 1.15 per cent – would be scrapped later this year, bringing Tokyo into line with New York and London.

In the meantime, competition in the small over-the-counter market has already given the industry a taste of things to come. Since Matsui, a small independent broker, announced a reduction in its commissions in early February this year a stream of foreign and domestic companies have followed suit. Within hours of the Matsui announcement, Paribas Capital Markets said it would match the cuts, and its example was soon followed by Credit Lyonnais and Nippon Securities.

Mr Paul Heaton, senior analyst at Deutsche Morgan Grenfell in Tokyo, says that by the end of the month 40 brokers had discounted rates, most by betwaen 50 and 60 per cent. "It clearly sets a precedent for the listed markets," he says.

Commissions are a particularly sensitive area for smaller brokers, who rely on them for between 90 and 100 per cent of their earnings. But even the "big four" brokers – Nomura, Nikko, Daiwa and Yamaichi – earn an average of 46 per cent of their earnings from commissions.

Even though average volumes traded on tha Nikkei have risen recently, volumes in the first two months of this year are still way down on those typical in the late 1980s. Trading volumes averaged 419m a day during January and about 440m in February, compared with an average of 389m shares a day in 1996 and an average low of 264m a day during 1992.

Present trading volumes are well below the levels some medium-sized brokers oeed to break even. When they expanded their branch oetworks rapidly in the late 1980s volumes were running at more than 1bn a day.

The bigger firms are also more vulnerable to other pressures stemming from liberalisation, and in particular from the gradual removal of barriers separating the businesses of banks and securities firms.

Bank-affiliated securities companies have already seized a sizeable shara of the market for domestic bond underwriting. After rules restricting banks from entering the area were lifted in April 1993, two long-term credit banks – Industrial Bank of Japan and Long-Term Credit Bank of Japan – established securities snbsidiaries. Six city banks – Dai-Ichi Kangyo, Sakura, Mitsuhishi (now part of Tokyo Mitsuhishi), Fuji, Sumitomo and Sanwa – followed suit in November 1994.

These bank subsidiaries have increased their share of the market from 9.8 per cent in March 1995 to 25 per cent in March 1996 and, according to Mr Shigeaki Katagiri, president and chief executive officer of LTCB Securities, 19 bank subsidiaries now account for 30 per cent of the market for underwriting new bond issues and 9 per cent of the market for equity-linked issues.

Mr Masashi Suzuki, chairman of the Japan Securities Dealers' Association, complains about the "fairness" of the competition to which the securities industry has been subjected to. He says that the bank subsidiaries are heavily dependent on businesses which have relationships with their parent banks. Nevertheless, he also emphasises the new opportunities being created for the industry by deregulation.

Many brokers have established fund management subsidiaries, which are competing mainly with foreign firms, for a share of the growing private pension and mutual fund market. According to Ms Alice Ogawa, analyst at Salomon Brothers in Tokyo, brokers distribution fees which are largely generated by sales of investment trusts increased by 22 per cent in aggregate in the first half of the 1996 fiscal year, contributing in large part to the improved operating performance of several of the bigger brokers.

Tokyo share trading*

Month	Shares traded (m)	Value Y '000 m
Jan 96	9,805	93,419
Feb	9,480	88,366
Mar	9,747	95,723
Apr	11,980	114,113
May	8,842	89,390
Jun	8,506	89,973
Jul	6,752	69,437
Aug	5,932	60,809
Sep	6,341	66,559
Oct	5,992	61,762
Nov	5,978	65,177
Dec	6,810	76,240
Jan 97	7,978	81,658

*TSE First Section. Source: Securities Dealers' Association of Japan

Mr Heaton describes fund management as the "key growth area" for brokers. More generally, brokers are aiming to gain from the expansion of the local capital market.

The recent expansion in profits in bond sales and trading indicates the potential importance of earnings from these sources. During the year to April 1996 bond trading accounted on average for 14 per cent of revenues at the big four, compared to an average of about 5 per cent over the previous 10 years. Significantly, the industry has benefited in particular from the enthusiasm of institutional and retail customers for dual currency bonds and other structured notes.

At the same time, however, before they can take full advantage of the new opportunities, Japan's bigger brokers must fully digest losses incurred by financial houses to which they are linked. The losses – which relate to bad property loans – are expected to cut off any remaining exposure to the property market. Even so, they will be sufficiently serious for the big four brokers to report pre-tax losses for the year to March 1997.

Nomura Securities reported in September that it would report Y371bn of losses in the first half of the 1996 fiscal year to support losses at Nomura Finance, for example. Two months later, Daiwa Securities followed suit by announcing it would pay Y120bn to help its Daiwa Finance real estate subsidiary to write off bad loans, again resulting from the decline in the real estate market. Yamaichi then announced a write-off of Y150bn, and in December Nikko said it was injecting Y147.5bn into three lending affiliates to enable them to write off uncollectable property-related loans.

Bucking the trend: shares on the Tokyo stock exchange were falling while, until last week, London and New York markets rose

DEREGULATION • by William Dawkins

'Last chance to catch up'

After years of discussion in government, the fuse is lit for 'big bang'

In Japan, there is nothing like a sense of crisis to stimulate change.

That is exactly what inspired Mr Ryutaro Hashimoto, the prime minister, to propose last November ambitious plans to deregulate Tokyo's costly and cumbersome financial markets and bring them to the same size and sophistication as London or New York by 2001.

It is nothing less than "our last chance to catch up", says a senior finance ministry official.

It is an ambitious objective. The "big bang" plan includes full liberalisation of commissions on equity sales and insurance premiums, probably from early next year. On top of this, banks, stockbrokers and insurance companies are to be permitted to enter each others' businesses, likely in two year's time. It is as if the US were to launch May Day deregulation and abolish the Glass Steagall Act simultaneously, points out Mr Thierry Porté, president of Morgan Stanley's Japan operations.

The plan, the timetable for which is to be sketched out in more detail by the government in June, also includes a host of detailed measures to allow investors and companies to make full use of their new freedoms.

Pension fund managers, for example, would be free to invest more money in equities, currently restricted to 30 per cent of their portfolios. All fund managers will have to disclose the market value of their investments, so that performance can for the first time be compared with deregulated foreign competitors.

Also planned is a move towards international accounting standards, so that investors can assess the real value of Japanese banks and securities companies, presently obscured by a web of cross holdings and hidden affiliates. The requirement to obtain a government licence to deal in foreign exchange is to be abolished.

Nothing on this list is new. All these proposals have been circulating in various government committees for years. Some lacked the political push to turn them into reality, others were to be introduced in gradual steps, to allow a soft landing for businesses likely to suffer from increased competition.

What is new is the commitment, at the highest political level, to a deadline, supported by the finance ministry's assumption that weaker institutions must be allowed to fail.

Four months after the launch of the "big bang" objective, the signs are that the government is indeed serious about carrying it out. For the first time in more than half a century, the finance ministry ordered the closure of an insolvent regional bank, Hanwa Bank, shortly after the big bang announcement – a sign that officials really do believe that market forces must be allowed to rule.

Initial progress in preparing the plan's deregulation moves has been rapid. The finance ministry has all but completed draft legislation to remove the few remaining exchange controls from April next year.

The UK's abandonment of exchange controls in 1979 is widely accepted as making wider deregulation inevitable, since it deprived the government of the means to halt a flow of financial business to other less regulated markets. Ministry officials hope that a similarly beneficial chain reaction will take place in Japan.

Deregulation of insurance premiums has already begun, with the award of licences for foreign insurers to sell cut price motor policies by mail order, the first stage of a trade agreement with the US completed last December.

In another step towards a freer financial market, draft legislation is being prepared to award the Bank of Japan greater autonomy, again from April next year. While not formally part of the big bang package, the change would make clearer the respective responsibilities of the BOJ and finance ministry in warding off risks to the stability of the financial system posed by an increase in bank and security company failures, a possible initial consequence of deregulation.

In addition, the ruling Liberal Democratic party and its political partners have agreed in principle to lift a 51-year-old ban on holding companies – probably next year – a move which would help the creation of diversified investment banks enabling institutions to cross over into new and more profitable kinds of business.

Legislating for a freer financial market is one thing. But what also counts is to what extent domestic banks and stockbrokers are prepared to welcome greater competition.

Some domestic players still hope for a soft landing. "The change to international standards will not take place in one go," says Mr Masashi Suzuki, chairman of the Japan Securities Dealers' Association.

But many others are preparing fast and early. Three months ago, two medium-sized stockbrokers, Tokyo-based Maruko Securities and Osaka-based Daiko Securities, announced a merger, in anticipation of the consolidation expected to diminish their overcrowded ranks. Last month, another medium-sized broker, Matsui Securities, unilaterally halved commissions on over-the-counter shares, not regulated by the finance ministry. This prompted a wave of discount OTC broking by all its main competitors.

It is not hard to see why the consensus for financial market deregulation has so suddenly taken shape. The Tokyo share price collapse early this year emphasised to many just how disconnected Tokyo had become from other leading financial markets. Equities in London and New York were reaching record highs just as Japanese shares were tumbling, to on average just over half the level of their 1989 peak.

Japan's "big four" stockbrokers, who once resisted the introduction of negotiated commissions, now accept that fixed commissions risk turning Tokyo into a backwater. Again, it is easy to see why. At the turn of this decade, monthly equity trading values in Tokyo and New York were roughly equal. Since then, Tokyo's trading value has fallen 70 per cent, at which level it is one fifth that of New York.

Tokyo is even losing its importance as a market for Japanese equities. Over the past five years, the proportion of Japanese shares traded in London – where commissions were deregulated just over 10 years ago – has tripled to 18 per cent of the total volume in Tokyo.

Will Tokyo manage to catch up again? Deregulation of the financial markets is certainly moving faster than elsewhere in the economy. The main players – that is, senior politicians, the finance ministry and the financial industry – accept that there is no alternative. The main doubt is whether those in favour of a soft landing, which includes a faction in the LDP and the smaller stockbrokers and banks, will be able to delay the process.

THE BOND MARKETS • by Richard Lapper

Samurais find favour

Low yields in the JGB market have sent investors searching elsewhere

Two very different trends have become increasingly evident in Japan's bond markets over the past 18 months.

On the one hand, historically low short-term interest rates have set the scene for a sustained rally in the government bond market. On the other, as yields on government bonds have fallen, investors – both individual savers and institutions – have become enthusiastic buyers of higher-yielding international bonds, paving the way for a surge in issuance both of emerging market samurai bonds and innovative dual-currency paper.

Sluggish economic growth and a resulting fall in inflationary pressure have underpinned buoyancy in the government market. Despite rises in oil prices and a sharp depreciation in the value of the yen, retail prices actually fell by 0.2 per cent during the 1995 fiscal year and are expected to increase by only 0.3 per cent in the current year.

Loose monetary policy has also pushed down yields. The Bank of Japan reduced the short-term interest rates to 0.5 per cent in September 1996 and has also injected liquidity at the longer end of the yield curve through its monthly Rinban, or bond purchase operations. These have recently fallen to Y200bn a month compared with between Y400bn and Y600bn a month last year.

As a result, yields are are some 3 percentage points lower than those of other OECD markets. During 1996, the yield on 10-year government bonds stayed well below 3 per cent; since the beginning of this year, yields have hovered between 2.3 per cent and 2.5 per cent; and with short-term interest rates expected to stay at current levels for the foreseeable future, some analysts suggest that 10-year yields could drop to as low as 2 per cent by the end of the year.

Japanese institutional investors – including life insurance companies and pension funds, as well as the stabilisation funds set up to manage the loans crisis – have been heavy buyers of government paper.

A survey conducted by Nikko Securities last year showed that domestic Japanese institutions remained confident about further price rises.

These factors have been reinforced by a series of technical and structural changes. As the government moves to rein in fiscal policy – a policy most recently evidenced by the tax increases in December – bond issuance is likely to fall further, reducing supply in the market. According to London analysts, as of mid-February net issuance of government bonds was expected to fall sharply in the year to March 1998, after dropping from Y7,400bn in the year to April 1996 to Y5,600bn in the year to April 1997.

The structural changes, which mirror developments in most other OECD bond markets, are designed to increase liquidity and make it easier for investors and traders, particularly international players, to buy and sell government paper.

A sale and repurchase market was introduced in April 1996. Although technically still a bond lending market rather than a strict "repo" market along US or European lines (transaction taxes would apply to a strict repo mechanism), the new market is more efficient than existing stock borrowing mechanisms. Brokerage firms and commercial banks are beginning to use it both to finance their holdings of bonds and cover against short positions (which result from sales of bonds which they do not own).

Life assurance companies have also begun to make their first tentative steps into the market. According to officials at the finance ministry, repo outstandings had risen – by the end of October 1996 – to Y8,900bn (against cash collateral), compared to JGB outstandings of Y150,000bn.

Changes are also under way to improve the efficiency of settlement. A rolling settlement system was put into place last September, and the government plans to move shortly to a system by which trades would be settled within three days. At the same time, a more comprehensive payment versus delivery settlement system – which will cover corporate and municipal bonds as well as government paper – is planned for December 1997.

There are other moves to increase liquidity in the market. For example, the ministry of finance is negotiating with banks about proposals to issue five-year government bonds. At present, although the government issues two, four, six and seven-year paper, issuance is heavily concentrated at the longer end of the curve. Firms complain that the absence of a five-year bond distorts the yield curve.

Low yields in the government market, however, have encouraged growing investor interest in the non-government sector, with both retail and institutional participation growing in yen-denominated bonds issued by foreign borrowers.

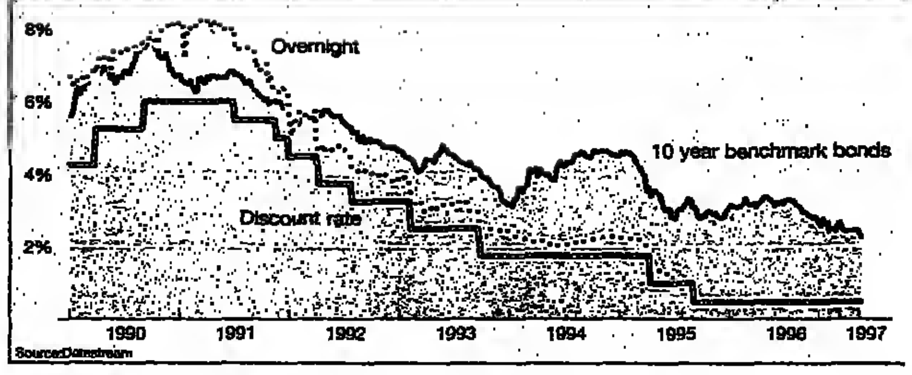
The liberalisation of rules restricting the issuance of yen-denominated bonds to investment-grade borrowers at the beginning of 1996 has helped stimulate growth in the samurai market.

Capital Data Bondware, the London-based information service, says issuance more than doubled in 1996 to Y3,798bn from Y1,656bn in 1995. Growth here and in the private placement market helped offset a decline in public euroyen issuance.

With the yen-weakening against the dollar during much of last year, structured notes offering a return in a higher yielding foreign currency were also attractive. Although dual-currency bonds have matured in a variety of currencies, some 80 per cent of the total last year were in Australian dollars. Other deals offering investors a coupon in the higher yield currency and redemption in yen have also been popular.

As well as retail buyers, smaller financial institutions such as regional and agricultural banks and mutual aid associations – whose freedom to invest more widely has been increased by pension fund reform – have also been active buyers both of samurai and euroyen.

MONETARY POLICY PUSHES DOWN YIELDS



Source: Datastream

DERIVATIVES • by Richard Lapper

Restrictions set to ease

Industry will be given the opportunity to catch up with overseas markets

Financial deregulation should give a fillip to Japan's derivatives industry, whose development has lagged behind that of the US and Europe. Many of the legal restrictions which have hampered the industry's growth could disappear over the next few years.

Detailed proposals for the derivatives industry have still to be outlined. However, change is expected in at least two areas.

Firstly, it should become easier to sell equity contracts in the over-the-counter market (between banks and their commercial customers), which at present contravene Japanese gambling laws unless they are conducted through a recognised exchange.

The Securities and Exchange Council, an advisory body which is part of the ministry of finance, is currently discussing the issue, and liberalisation is expected to take place, probably in the 1997 business year.

Secondly, amendments to foreign exchange rules planned for later this year will have a direct impact on the derivatives markets. The withdrawal of rules currently limiting all but a group of restricted "authorised banks" to conduct foreign exchange transactions will make it easier for players in the financial markets to hedge currency risks. The list of authorised banks includes city banks and long-term credit banks and some regional banks, but excludes Japan's giant securities houses and some other banks, many of which are active in the derivatives markets overseas.

From April – when the new rules are scheduled to take effect – the whole of the financial sector will be able to enter into foreign exchange swap and options contracts with overseas counterparties, which should make it both easier and cheaper for them to to construct derivatives products which either hedge against, or speculate on, currency risk.

Financial deregulation could also help Japan's derivatives exchanges. Officials at the Osaka Stock Exchange (OSE), which lists Nikkei stock index futures and options contracts, said in November that they were hopeful of obtaining permission to list new single stock options contracts during 1997, as well as futures and options contracts based on specific sectors of the stock market. And the spirit of the reform is likely to strengthen the resolve of both the OSE and the Tokyo-based exchanges in their moves to increase efficiency and become more user-friendly, especially towards international investors.

The OSE has already begun to reduce the amount of margin which clearing brokers must deposit with them on behalf of investors. The size of initial margins (deposited at the inception of a trade) at the OSE compared to those at the Singapore International Monetary Exchange (Simex) were one of the main reasons why dealing in the Nikkei 225 contract moved offshore in the early 1990s, for example. Margins have subsequently fallen sharply from their highs of 30 per cent, but business earlier lost to Singapore has not returned. According to OSE figures, Osaka's market share of the Nikkei 225 contract has fallen from 98.4 per cent in 1991 to 65.1 per cent in 1996.

The Tokyo International Financial Futures Exchange (Tiffe), meanwhile, has also taken steps to reduce margins which clearing brokers must post, last year reducing levels by 50 per cent for clearing brokers and by 70 per cent for non-clearers. There are also some signs that the exchanges are beginning to respond to criticism in the markets about the alleged inadequacy of their systems. Tiffe is reported to be planning to change its computer systems early in 1998. Traders have claimed that the system used to match orders at the Tokyo exchange is slower than on other markets and that they are sometimes unable to fulfil orders quickly and effectively.

Business in the exchange-traded equity market has been sluggish, reflecting these problems but also the fact that investors have had only a limited need to hedge positions in view of the sluggish performance of the equity market, still languishing at no more than half its 1989 peak. Volumes of Nikkei 225 contracts traded at the OSE fell last year, and volumes are still less than a quarter of those achieved in 1991.

Volumes of exchange-traded fixed income contracts traded at Tiffe have also been disappointing. Euroyen volumes fell by nearly one-third in the first nine months of 1996, compared with the same period of the previous year. Volumes of 10-year bond futures contracts have also dropped off.

However, in the over-the-counter market there have been indications that investors are becoming less risk-averse and increasingly prepared to buy products which include some derivatives features in order to increase returns.

In the past 18 months, Japanese investors have been very active buyers of structured notes, which offer higher yields than those available from traditional bank deposits, debentures or government bonds.

The most popular structures include dual currency notes – which pay a relatively high interest rate in yen and are redeemable in a foreign currency, usually the US, Australian or New Zealand dollar – and reverse dual currency bonds – which pay interest in a foreign currency and are redeemable in yen.

PROFILE Yasuo Matsushita, central bank governor

Confidence, authority increase with time

In his first news conference after being appointed governor of the Bank of Japan in December 1994, Mr Yasuo Matsushita said the BoJ's monetary policy would change some time soon.

"It is not a phase that can expect a drastic change," he said.

The official discount rate was then at an historic low of 1.75 per cent. Four months later, Mr Matsushita cut the rata to 1 per cent, and in September lowered it again to its present level of 0.5 per cent.

In the first six months of his five-year term, Mr Matsushita, now 71, faced criticism for moving too slowly and being too passive on monetary policy.

During that time he confronted a 20 per cent surge in the yen's value against the dollar and a steady decline in consumer spending and business confidence. He faced growing public alarm about the massive bad debt of the country's banks, and demands by politicians to further lower the discount rate to help economic recovery.

Now in the fourth year, Mr Matsushita is still assuring investors that rates are likely to remain unchanged for the foreseeable future. But he does so with more confidence and authority, observers say.

He is presiding at a time when the government has decided to boost the central bank's powers for tha first time in the bank's 55-year history. Under a draft plan which is expected to be approved by parliament in the current session to June, the finance ministry will lose much of the influence it currently has over central bank policy and appointments.

Mr Matsushita was the vice-minister of finance, the country's top bureaucrat, when he became the 27th governor.

His appointment provoked renewed criticism among some financial circles over the informal but established practice of drawing central bank governors alternately from the finance ministry and from the BoJ. Critics in recent years have increasingly voiced concern that the finance ministry exerted too much influence through its hold on the central bank governorship.

Mindful of such criticisms, Mr Matsushita's first year in the position was characterised by his need to respond tofinance ministry pressure and to maintain the central bank's independence.

Under the revised charter, however, prospective central bank governors will have to be approved by parliament as well as the cabinet. Currently, only cabinet approval is required for choices that are widely seen as originating in the finance ministry.

Mr Matsushita has voiced his approval of the planned reforms. "If this revision is made, it will give the central bank more responsibility and also the power to reform itself for the coming century," he says.

Gwen Robinson


Yasuo Matsushita: approves the planned reforms

PROFILE Hiroshi Mitsuzuka, finance minister

Careful path to tread

As a seasoned politician and leader of his own faction within the ruling Liberal Democratic party, Mr Hiroshi Mitsuzuka, 69, is among the most influential members of the Hashimoto administration.

He held prominent posts in previous administrations, including minister of foreign affairs, transport, and international trade and industry.

Following national elections last October, the prime minister, Mr Ryutaro Hashimoto, gave Mr Mitsuzuka the portfolio of finance minister on the strength of his extensive experience in administrative affairs as well as on the basis of his political clout.

The two orchestrated an ambitious package of financial reforms, announced last December as Japan's "big bang" plan which features sweeping deregulation of the securities and finance industry.

In the new climate of reform, Mr Mitsuzuka has departed from the old "nursemaid approach" taken by previous finance ministers towards troubled financial institutions and slumping stock markets.

Under his direction, the government has refrained from so-called "price-keeping operations," traditionally used to inject public funds into the stock market, and has allowed an unprecedented number of small and medium-sized financial institutions and banks to fail.

In February, however, Mr Mitsuzuka was forced to calm fears that his hardline policy on troubled financial institutions would extend to Japan's top banks. In response to rumours of a crisis at Nippon Credit Bank, Mr Mitsuzuka reassured investors that none of the top 20 banks would be allowed to fail.

He is now treading a careful path between preserving good working relations with influential bureaucrats in his own ministry and, on the other hand, whittling down their powers under promised reforms.

Politically, also, Mr Mitsuzuka has charted his way through various corruption allegations. The most recent controversy arose last November from reports that Mr Mitsuzuka's former faction received political donations from an oil dealer arrested on suspicion of tax evasion. Mr Mitsuzuka's group insisted the donations were legal, but reports of the oil dealer's dealings with bureaucrats and politicians are fuelling a widening scandal.

Gwen Robinson


Hiroshi Mitsuzuka: his political clout is valued

Reform plans taking shape

Continued from Page 1

to achieve. That assumption is widely held to be a factor in the sudden collapse of share prices, led by banks and stockbrokers' shares, at the start of the year.

The market has since recovered slightly, but even so the top 20 banks' share prices remain at their lowest for nearly five years. Falling share prices have worsened the banks' plight by eroding the value of the equities they include in capital.

They cannot easily raise new capital, needed to preserve the capital adequacy ratios required by international regulations, without hitting the value of their shares further. Logically, the best option would be to break with the habit of decades and reduce their assets, as two of them have begun to do.

That vital restructuring is in its early stages, but the signs are that the political, economic and financial pressure for reform of the Japanese financial system has become impossible to resist.


Plans for deregulation have been talked about in the Diet (parliament) for years; now action seems likely

PROFILE Tadashi Ogawa, vice-minister of finance

Calm, steady operator

Mr Tadashi Ogawa, 57, was appointed vice-minister of finance, Japan's top bureaucratic post, in one of the ministry's darkest periods.

He was named to the position in late 1995 when his predecessor, Mr Kyosuke Shinozawa, abruptly resigned to take responsibility for the ministry's widely-criticised handling of the country's financial crisis and the government's decision to allocate at least Y685bn of public money towards liquidating bankrupt housing loan companies.

In his previous post as chief of the ministry's national tax administration agency, Mr Ogawa oversaw the planning of a new tax system. One of his key proposals, a controversial plan to raise sales tax from the current 3 per cent to 5 per cent, is to be implemented next month.

Mr Ogawa's reputation as a calm, steady operator and an ideas man was enhanced during his earlier stint as secretary to the disgraced former prime minister, Mr Noboru Takeshita. The two formed a close working relationship during Mr Takeshita's time as finance minister in the late 1970s.

Mr Takeshita's term as prime minister ended with his resignation over corruption allegations in 1989. Commentators say that during that period Mr Ogawa demonstrated great skill in navigating between political and bureaucratic forces – a quality that has served him well in pushing through unpopular reforms and trying to curb government expenditure.

He has displayed the same political sense since attaining the ministry's top post and shown caution about commenting publicly on sensitive issues such as the banks' bad-debt problems.

However, in the recent political debate over financial and administrative reform, Mr Ogawa has been unequivocal. He has staunchly defended the finance ministry's powerful role in government and repeatedly expressed opposition to politicians' proposals to break up the ministry's functions and spin them off to independent agencies.

"I think the present system, in which the ministry manages both fiscal and monetary policies, is an appropriate way to guide the Japanese economy," he says.

Gwen Robinson

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday March 25 1997
Week 13

IN BRIEF

Inchcape gets Toyota boost

Pre-tax profits at Inchcape, the international distribution group, surged 12 per cent to £165m ($262m) last year, powered by a recovery in its core vehicle importing and distribution business. The company said better cars from Toyota helped improve sales. Page 20

Comsat plans sell-offs
Comsat, the US satellite services company, is to sell its entertainment and earth-station hardware divisions in an attempt to return to earnings growth. The company will also press for privatisation of the satellite consortium, Intelsat. Page 16

Restructuring helps Israel Chemicals
Israel Chemicals, the export-driven state-owned chemicals group, returned to profit last year following a restructuring programme by Mr Shaul Eisenberg, chairman, who paid the government $330m for a 24.9 per cent stake in 1995. Page 17

Reed buys MDL Information Systems
Reed Elsevier, the Anglo-Dutch information and media group, agreed to spend $320m of its US cash reserves on MDL Information Systems, which specialises in the management of research and development information. Page 16

Cosco to raise HK$1.2bn for purchases
Cosco Pacific, the world's fifth-largest container leasing company, is to raise HK$1.2bn (US$155m) through a share placement to help fund its purchase of ports in China and throughout the Asia-Pacific region. Page 19

Leo Burnett chiefs quit in costs row
Two top executives at Leo Burnett, the Chicago-based advertising agency, have left the company following an employee revolt against a cost-cutting drive. Leo Burnett ranks among the world's biggest advertising agencies. Page 18

Roche disappoints despite advance
Roche, the Swiss drugs company, has continued more than a decade of uninterrupted profit growth by increasing its net income by 16 per cent to SFr3.9bn ($2.69bn) in 1996 and raising its dividend by 17 per cent to SFr75 per share. The results were regarded as mildly disappointing. Page 16

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Holzmann	549	+	29
Kloeckner Werke	126.2	+	6.2
SAP AG	278.5	+	15.5
Schering	173.9	+	7.5
Thyssen	417.5	+	26.5
Falls			
Gerresheimer	31.95	-	4.55
NEW YORK ($)			
Rises			
Amer Rlty New	19⅛	+	2⅛
PHP Healthcare	11⅞	+	1⅛
Falls			
Champion Ent	14⅞	-	3½
Concentra	18	-	1¼
Global Direct	27	-	3
Kennametal	35⅛	-	5⅜
LONDON (Pence)			
Rises			
Caldwell Inv	66½	+	9½
Chem Design	343	+	25
Pace Micro	86½	+	8
Falls			
AromaScan	65½	-	8½
CPL Aromas	107½	-	12½
City London PR	99½	-	9½
TORONTO (C$)			
Rises			
CGI 4	15.0	+	1.25
Oxford Prop	26	+	2
Falls			
Cono Energy	8.5	-	0.95
Metrowerks	8.2	-	0.9
Spectrum Sig	7.00	-	0.75
Tomoil Mine B	6.05	-	0.75

PARIS (FFr)			
Rises			
Fonc Lyonnaise	740	+	22
Falls			
Damart	4440	-	110
Elf Aquit'n Cts	501	-	23
Havas Adv	635	-	17
SGS-Thomson	388.8	-	8.2
Total B	462.5	-	10.5
TOKYO (Yen)			
Rises			
Arabian Oil	3590	+	280
Dai Nippn Pharm	816	+	69
Kochi	575	+	50
Kikkoman	630	+	48
Meiji Milk	515	+	52
Nichirei	485	+	52
HONG KONG (HK$)			
Rises			
Aeon Credit	2.60	+	0.33
Paul Y Const	1.82	+	0.14
Silver Grant	8.05	+	1.05
Wharf Hldgs	31.2	+	2.05
World Housewr	0.66	+	0.07
Falls			
Golden Harvest	1.36	-	0.14
BANGKOK (Baht)			
Rises			
Thai Airways	46.75	+	4.25
Falls			
G Grmm Eng	18.75	-	2.00
City Sports	26.25	-	2.75
Lam Soon	13.75	-	2.25
Ramkamhaeng	34.50	-	4.75
Rasawa	45.5	-	5.0

New York and Toronto prices at 12:30.

Company complains of 'misinformation' about gold mine estimates

Bre-X hits out at Busang critics

By Clay Harris in London, Manuela Saragosa in Jakarta and Scott Morrison in Vancouver

"When the first ounce of gold is poured at Busang, I'm sure the naysayers will complain about the colour"
Bre-X president David Walsh

Bre-X Minerals said yesterday it had "absolute confidence in the integrity and accuracy" of the assay results from what it claims to be the world's largest gold deposit in Indonesia.

The Canadian exploration company reacted strongly to doubts raised last week by a Jakarta newspaper about the size of the deposit at Busang, in the province of East Kalimantan on the island of Borneo.

Bre-X shares, which plunged on Friday to a 52-week-low, recovered slightly in Toronto.

Indonesian police said, meanwhile, they had found the body of Mr Michael de Guzman, Bre-X's chief geologist, on marshy land under the flight path of a helicopter from which he was reported to have jumped last Wednesday.

Mr I.B. Sudjana, the country's mines and energy minister, said Indonesia would take "firm action" if reports suggesting Busang was smaller than Bre-X's estimates turned out to be true.

Mr David Walsh, Bre-X president, complained of the "continuing proliferation of falsehoods and misinformation by unnamed sources" and threatened legal action against "certain parties and publications".

He said: "When the first ounce of gold is poured at Busang, I'm sure the naysayers will complain about the colour."

Freeport-McMoRan Copper & Gold, the US company which plans to develop Busang, is conducting tests at the site. Freeport and Bre-X have both said they would not comment until the tests were complete.

Under an agreement reached last month, Bre-X would own 45 per cent of Busang, Freeport 15 per cent, the Indonesian government 10 per cent and two Indonesian companies a total of 30 per cent.

Mr Walsh said Mr John Felderhof, Bre-X senior vice-president for exploration who shares credit for the discovery with Mr de Guzman, had returned to Indonesia to "secure the expeditious development" of Busang.

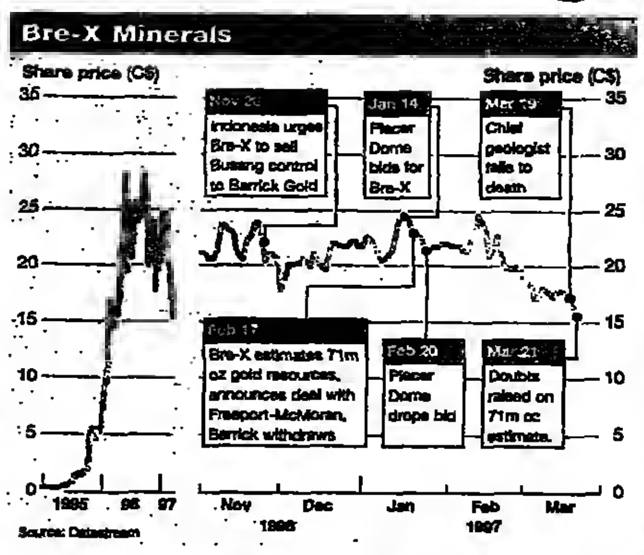
Mr Felderhof has openly speculated that the deposit could contain as much as 200m ounces of gold, almost three times the official 71m ounce figure now at issue.

He said in Jakarta: "I have got enough to deal with after the death of my friend and that's my first concern."

Mr Anwari Arnowo, president of Indonesian operations for Vancouver-based Borneo Gold Corporation, another Canadian mining company, said of Mr de Guzman: "I knew him very well and I knew he was terribly sick from hepatitis B.

"His death had nothing to do with the company. It was a suicide by a very hard-working man who could not take the pain any longer."

Bre-X Minerals



Source: Datastream

Buoyant markets give boost to Lehman profits

By Richard Waters in New York

Wall Street's long streak of rising quarterly earnings has continued into 1997, according to yesterday's results from Lehman Brothers, the US investment bank.

However, the spectre of a US interest rate increase, possibly as early as today, has left a more sombre outlook for the rest of this year.

Lehman reported a 38 per cent jump in after-tax profits for its first quarter. Coming on the heels of strong earnings last week from Goldman Sachs, the news offered further proof of how the buoyant bond and stock markets in the US have fuelled Wall Street's rise.

But widening expectations of an early interest rate rise have prompted stock market concern about the prospects for investment banks, in particular those which, like Lehman, are heavily dependent on earnings from the bond markets.

With the Federal Reserve's open markets committee due to meet today, many Wall Street economists expect to see US rates raised for the first time in more than three years.

Lehman's shares had rallied $¾ to $31¾ by lunchtime in New York, still 15 per cent below last month's peak.

Net income was $144m for the three months to the end of February as net revenues rose 13 per cent to $925m. Earnings per share were $1.16, well ahead of the 79 cents of a year ago and above analysts' expectations of about 91 cents.

Lehman's earnings continue to compare unfavourably with most of its biggest rivals. It reported a return on equity – a key measure of performance – of 16.1 per cent, compared with 13.9 per cent for all of 1996. Most other Wall Street houses have achieved returns of over 20 per cent.

The bank's revenues included a 14 per cent increase in the contribution from investment banking to $340m. Mr Richard Fuld, chief executive, said the figures reflected "the balanced strength ... in the firm's fixed income, equity and investment banking activities over the past six months".

Leo Kirch, head of the German media group which is facing increasing losses from its digital pay-TV venture DF-1 Picture: EPA

Kirch seeking $500m of German bank loans

Munich-based media group denies cash crisis

By Frederick Stüdemann in Berlin

KirchGroup, the German media company, yesterday confirmed that it was negotiating with banks over a large-scale loan, believed to be in the region of DM1bn ($500m).

However, it denied reports that the financing was intended to stem a cash crisis caused by increasing losses from its digital pay-TV venture DF-1 and other subsidiaries such as the free TV networks SAT-1 and Deutsches Sport Fernsehen.

Kirch, based in Munich, said it had been in talks for some time with the Bayerische Landesanstalt für Aufbaufinanzierung (LfA), a bank owned by the state of Bavaria, which provides financing to small and medium-sized businesses.

Kirch is talking to other commercial banks, believed to include Bayerische Vereinsbank.

Mr Otto Wiesheu, the Bavarian economics minister and head of the LfA supervisory board, said yesterday that a decision on whether to grant the loan, which would be at market rates and conditions, had not been reached.

Tha LfA is believed to be considering supplying roughly half of the loan, with the rest being made up by commercial banks.

The financial health of Kirch has become the subject of increasing speculation.

DF-1 has fallen far short of its original subscriber forecasts, leaving Kirch with considarable financial commitments from the start-up and running costs, and guarantees made to Hollywood film studios with which the German company signed billion-dollar deals last year.

Analysts estimata tha start-up costs of DF-1 at $1.5bn.

In early March Kirch experienced a further setback when British Sky Broadcasting said it would not be taking up an option to acquire a 49 per cent stake in DF-1.

At the same time Kirch has yet to reach a necessary compromise with Premiere, an analogue pay-TV channel in which both it and rival company CLT-Ufa have stakes.

There has also been no progress on a distribution deal with Deutsche Telekom, the partially-privatised telecoms company owning most of Germany's cable network, which Kirch needs to put DF-1 into the majority of households.

The negotiations between Kirch and the LfA were criticised yesterday by Bavaria's Green party, which said that LfA funds were not intended for "adventurers and speculators". It called on the state government to block the loan.

Kirch would not give details of the negotiations or the sums involved. The purpose of the loan was to provide "financing for KirchGroup's business activities", it said. "It is perfectly normal for companies to finance their investments through a mixture of loans and their own money."

Observer, Page 13
Lex, Page 14

Indian privatisation helped as VSNL raises $448m

By Tony Tassell in London

Videsh Sanchar Nigam, India's sole provider of international telecommunications, has raised an initial $448m in the country's largest international equity issue.

VSNL said "exceptional demand" saw the global depository receipt issue (GDR), the third largest international equity offering by an Asian issuer outside Japan, heavily oversubscribed.

The strong demand should boost the domestic share market and the government's programme of partial privatisation of state-controlled companies such as VSNL.

The government is planning a succession of similar issues over the next 12 months to raise Rs45bn ($1.25bn) in its attempt to reduce tha country's fiscal deficit from 5 per cent to 4.5 per cent of gross domestic product.

Brokers said that even if only a part of the unfulfilled VSNL demand spilled over into the domestic market, Indian equities werelikely to rise strongly over the next few months. Gross commitments to the issue totalled $5bn.

VSNL will also have tha right to exercise a greenshoe option to raise a further $80m, bringing the total issue size to $528m, far in excess of the previous largest GDR offering from the subcontinent – State Bank of India's $370m fund-raising last year.

Demand for the issue was highlighted by a sharp rise in the GDR after the start of trading in London yesterday. The offering was priced at $13.93 per GDR, equivalent to Rs1,000 per underlying domestic ordinary share, and was four times subscribed. Each GDR represents half an underlying domestic share.

Bankers said the pricing represented a 1.5 per cent premium to VSNL's close in Bombay on Friday of Rs985.35 and a 6 per cent premium to the average stock price over the last three months of Rs943.17.

The GDRs traded in London yesterday at $16.50, an 16 per cent premium to the offering price.

Bankers said a higher price could hava been sought for the GDR, but tha government "wanted to send a signal that they are listening to tha market".

The issue's joint global co-ordinators were Dresdner Kleinwort Benson, Jardine Fleming and Salomon Brothers.

Suez-Lyonnaise deal closer

By Andrew Jack in Paris

Shares in Suez and Lyonnaise des Eaux fluctuated yesterday on signs that the two French groups were close to deciding on a merger.

Executives are believed to be finalising proposals which could be presented to the boards of Suez and Lyonnaise in early April, before publication of tha groups' results.

If the deal goes ahead, it would create a single quoted company primarily providing water and other utilities services to governments around the world.

The positive reaction of the financial markets is in contrast to the drop in Lyonnaise's share price when a merger with Suez was discussed two years ago. Lyonnaise shares yesterday closed up FFr13 at FFr374, while Suez ended the day down FFr3.1 at FFr277.3, after sharp rises in the morning.

Mr Gérard Mestrallet, who took over as chairman of Suez in a 1995 boardroom coup, has reshaped the holding company, concentrating on utilities, to become the largest shareholder in Tractebel of Belgium.

He has refocused Suez's strategy, sold businesses including Gartmore, Banque Indosuez and the portfolio of property loans, transforming its heavy debts into a cash pila for investments.

He has been supported by Mr Jérôme Monod, 67, tha chairman of Lyonnaise, in which Suez holds more than 16 per cent of the shares.

Following a merger, Mr Mestrallet would be in a good position to take over from Mr Monod, who intends to remain in place at laast until next year.

Lyonnaisa's debts have fallen sharply to about FFr20bn ($3.51bn) in the past few months, and it is poised to reveal profits above expectations at more than FFr1.3bn next week.

Those close to the negotiations said yesterday the deal was far from certain, with disagreements over merger price and concern over the reaction of rival investors.

Reed Elsevier in $320m US acquisition

By Raymond Snoddy in London

Reed Elsevier, the Anglo-Dutch information and media group, yesterday agreed to spend $320m of its US cash reserves on MDL Information Systems, which specialises in the management of research and development information.

MDL went public in 1993 when the administrators to the late Robert Maxwell's business empire found the little "gem" inside the Macmillan publishing group.

The deal is a shift for Reed Elsevier, which already publishes 1,200 scientific journals in paper and electronic form, from strictly content to a more comprehensive service provider.

The group is paying $32 a share for MDL – close to its $33 high last October.

The purchase price, in a tender offer organised by Lehman Brothers, represents 30 times earnings and five times revenues. Last year revenue totalled $61.5m, an increase of 19 per cent, and operating income was up 74 per cent at $10.3m.

Unlike text databases, MDL's software gives graphical representation of molecular structures, and allows the user to develop models for possible drug compounds with a search of different molecules.

The aim is to speed up drugs design and research by creating hundreds, or even thousands, of different drug molecules. Almost all the world's leading pharmaceutical companies are among MDL's 800 customers.

Mr Nigel Stapleton, co-chairman of Reed Elsevier, said yesterday he saw the acquisition as a "bridge" that would help to get Reed's scientific content on to the desks of research scientists. There had been intense bidding for the proprietary software, he said. At the moment MDL mainly targets chemists in the pharmaceutical industry, but plans to launch a new product aimed at biologists later this year.

To fund the purchase, Reed is using cash balances currently invested in short-term accounts and earning an interest rate of around 5.4 per cent.

The acquisition of MDL, which is based in San Leandro, California, is subject to antitrust clearances.

In the second half of this year Reed Elsevier plans to launch ScienceDirect, an online database initially containing 350 of its life sciences journals, and later all 1,200 scientific journals.

Roche disappoints despite 16% advance to SFr3.9bn

By William Hall in Zurich

Roche, the Swiss drugs company, continued more than a decade of uninterrupted profits growth when it reported a 16 per cent increase in net income to SFr3.9bn ($2.69bn) for 1996.

The results, which were announced after the Swiss stock market closed, were regarded as mildly disappointing. The group increased net income by 16 per cent in the first half of 1996, and analysts had forecast a 17.6 per cent rise in the second-half, on the basis of the recent sharp decline in the Swiss franc.

Roche certificates, the most widely traded shares, have risen 18 per cent since the start of the year, helped by rumours that the group might use part of its SFr15bn cash pile to make an acquisition or buy back shares.

The certificates closed SFr85 lower, at SFr12,250, ahead of yesterday's announcement.

Despite the disappointing results, analysts welcomed the announcement that Mr Jonathan Knowles, 49, the British-born head of research at Glaxo Wellcome Europe, will take over as Roche pharmaceutical research chief. He will replace Professor Jürgen Drews, 63, who has overseen the recovery in Roche's research effort for the last decade.

Most analysts believe the company is poised to enjoy the benefits of one of the strongest new-product pipelines in the industry.

Mr Knowles's appointment will be seen as a further sign of the growing influence of Mr Franz Humer, Roche chief operating officer and pharmaceutical chief, who joined Roche just over two years ago from Glaxo, the UK drugs company.

In addition to heading research for Glaxo Wellcome Europe, Mr Knowles has been director of the Glaxo Institute for Molecular Biology in Geneva since 1989 and has been heavily involved in developing Glaxo's strategy in the field of genetics. He will join the Roche executive committee in January 1998.

Roche has traditionally released news of its performance over a period of several months. It announced its sales figures in January and will release further details at its annual press conference in mid-April.

Yesterday's profits announcement noted that "capacity utilisation at existing production facilities continued to rise and, coupled with steady gains in efficiency, contributed to yet another improvement in the group's operating results".

Analysts are concerned that the company has become increasingly dependent on earnings from its financial activities, which were equal to 40 per cent of operating profits in the first half.

Roche will disclose more details next month but said yesterday that its net income was boosted by a "very strong non-operating result".

The dividend is lifted 17 per cent to SFr75 per share.

Franz Humer: seen as having growing influence at Roche

EUROPEAN NEWS DIGEST

Hochtief in deal on Holzmann stake

Hochtief, the German construction group, yesterday looked set to increase its management influence over its Frankfurt-based rival, Philipp Holzmann, after it announced it was pooling its interests with Holzmann's other majority shareholder, Deutsche Bank. Hochtief, which holds a 24.9 per cent stake in Holzmann, said it would give details of its deal with Deutsche Bank at a news conference today. It added that the agreement would give the two partners "just under 50 per cent" of Holzmann, a move which would require approval from European competition authorities.

Hochtief, which has been locked in a takeover battle with Holzmann for the past two years, has so far been thwarted by the German cartel office, which argues a merger would create a dominant force on the German market. Hochtief claims a merger would better position the two groups against fierce international competition. Hochtief separately said that because of the pooling arrangement, it was cancelling an option to buy a 10 per cent stake in Holzmann, currently "parked" with Commerzbank. *Sarah Althaus, Frankfurt*

Swiss telecoms group optimistic

Switzerland's state-owned telecommunications company expects to increase its pre-tax profits by 7 per cent to SFr1.5bn ($1.03bn) in 1997 despite a marginal fall in sales to SFr10.2bn. The group, which is changing its name to Swisscom ahead of next year's stock market flotation, says that reductions in charges of SFr660m over the past two years are the main reason for its sluggish sales growth. In the current year revenues will be reduced by another SFr200m as a result of price cuts.

The group is facing increasing international competition in its core market for telephony, which accounts for half of sales, and turnover fell 3 per cent last year. However, its mobile phone business increased turnover by 47 per cent in 1996. After restructuring charges of SFr681m, Swisscom reported a net profit of SFr746m in 1996, which was 50 per cent below the previous year, when there were SFr109m of restructuring charges. Some 85 per cent of the group's SFr14.6bn assets is financed by debt which will need to be restructured before flotation. *William Hall, Zurich*

Vontobel venture capital move

Vontobel, a Swiss private bank, is raising SFr400m ($275m) to invest in venture capital, primarily in Europe's Alpine region. The new company, Private Equity Holding, is designed to appeal to Switzerland'a traditionally conservative investment community by spreading its investments across 10 specialised venture capital concerns. It is the biggest venture capital fund to be established in Switzerland, although the bulk of its investments will be made in businesses based outside Switzerland. The company intends to seek a stock market listing after two years. *William Hall*

RNGS to seek NY listing

Rosneftegazstroy, Russia's largest oil and gas pipeline construction company, is seek a New York listing later this year. The company, also known as RNGS, floated about 3 per cent of its shares on the Berlin stock exchange last month. Mr Ivan Mazur, chairman, said the company was now working to improve its financial reporting systems in preparation for a level one American Depositary Receipt listing. *Robert Corzine, London*

TV start-up costs widen CME losses to $30m

By Kevin Done, East Europe Correspondent

Central European Media Enterprises, the US pioneer of private commercial television in central and eastern Europe, increased its turnover by 37 per cent last year to $135.99m, helped by the expansion of its broadcasting operations in Romania, Slovenia and Slovakia.

The group's net loss widened to $30m from $18.7m in 1995 under the burden of start-up costs in Slovakia, development expenditure for new operations in Poland, Ukraine and Hungary, and continuing heavy losses on its regional television operations in Germany.

Operating profits at Nova TV, CME's Czech television station and the group's highly lucrative first operation in eastern Europe launched in early 1994, increased to $45.4m from $42.9m in 1995.

Despite the resistance of the Czech broadcasting authorities CME is raising its stake in Nova TV by 5.2 percentage points to a 91.2 per cent voting interest and a 93.2 per cent economic interest with the acquisition of part of the holding of Mr Vladimir Zelezny, general director of the Czech station.

Mr Leonard Fertig, CME chief executive, said that PRO TV, the group's majority-owned Romanian operation, had achieved an operating profit of $507,000 in the fourth quarter of 1996, only one year after launch in December 1995.

And POP TV, the group's television station in Slovenia, came close to break-even in the final quarter, also after only 12 months of operations.

As a result of the rapid improvement in the performance of the new operations the group's net loss was cut to $2.9m in the final quarter of 1996 from $6.8m in the same period a year earlier.

Mr Fertig said that the group had expanded from a development company into the leading broadcaster in central and eastern Europe within two-and-a-half years of its initial launch in the Czech Republic.

Its coverage had increased to 93.3m people in the region by the end of last year from 27m in 1995.

Through other activities under development and the expansion of existing operations the group had the potential to increase its total broadcast coverage to more than 140m viewers, he said.

CME now operates the top-ranked stations in four countries, the Czech Republic, Romania, Slovenia and Slovakia.

It is planning to launch its national network in Poland in October and next month will take part in the tender offer for one of two national broadcasting licences in Hungary.

German steelworkers turn heat on banks

Events in Germany have given a new meaning to the term "hostile takeover". Since it emerged last week that Krupp Hoesch was planning a bid for Thyssen against the wishes of the latter's management – although the two sides yesterday announced a friendly deal – it is the banks which have been pilloried rather than the bidder.

Emotions have reached such a pitch that steelworkers, possibly up to 30,000, are still planning to march into Frankfurt's central banking district today to demonstrate against the two biggest German banks, Deutsche Bank and Dresdner Bank. They will come in buses, trucks, cars and motor cycles from the Ruhr district where the two steel and engineering companies are based.

Their main concern – whatever the shape and scope of the final deal – will be to keep their jobs at a time of high unemployment. Krupp's manoeuvre has raised fears of more job losses in German heavy industry. It has also underlined the suspicion with which large sections of Germany's consensus-minded society, including politicians on both sides of the political divide, regard the scale of economic restructuring – with a shift from manufacturing to service- and information-based industries – now generally accepted in many other countries.

Miners have already demonstrated successfully in Bonn, persuading Chancellor Helmut Kohl to slow the run-down in coal mining by continuing heavy subsidies. Now the workers in the steel industry, no longer subsidised and facing strong competitive pressures for change, are taking their turn in the financial capital.

Ever since Thyssen accused Krupp of "wild west" tactics, feelings have run high. Some of the language used by employees, trade unionists, a few politicians and even right-wing press commentators has been reminiscent of attacks on 19th century laisser-faire capitalism.

There could be more such talk today, though the tone may well be less aggressive since Krupp dropped its bid late yesterday afternoon. The demonstrators will be addressed from a podium in front of Deutsche's twin-towered headquarters by Mr Klaus Zwickel, head of the IG Metall engineering union, and Mr Georg Bongen, head of the Thyssen works council.

The banks, which have been advising Krupp, along with Goldman Sachs, the US investment house, hope the demonstration will be peaceful. But they have been rattled. Deutsche Bank's board met specially yesterday morning to discuss the situation.

It took the unusual step of issuing a statement to defend its role as an adviser to Krupp, asking simply: "What has Deutsche Bank done?" It said its investment banking unit, Deutsche Morgan Grenfell, had advised Krupp, at the company's request, on the bid and its possible financing.

In the face of strong criticism of the bank's role in financing what could have been a hostile takeover, it felt obliged to state that such mandates were common in and outside Germany. Deutsche Bank was not following any industrial policy of its own. "Talk by some politicians and trade unionists of conspiracy theories, 'wild west' behaviour and banks' claims to power bear no relation to the truth," it asserted.

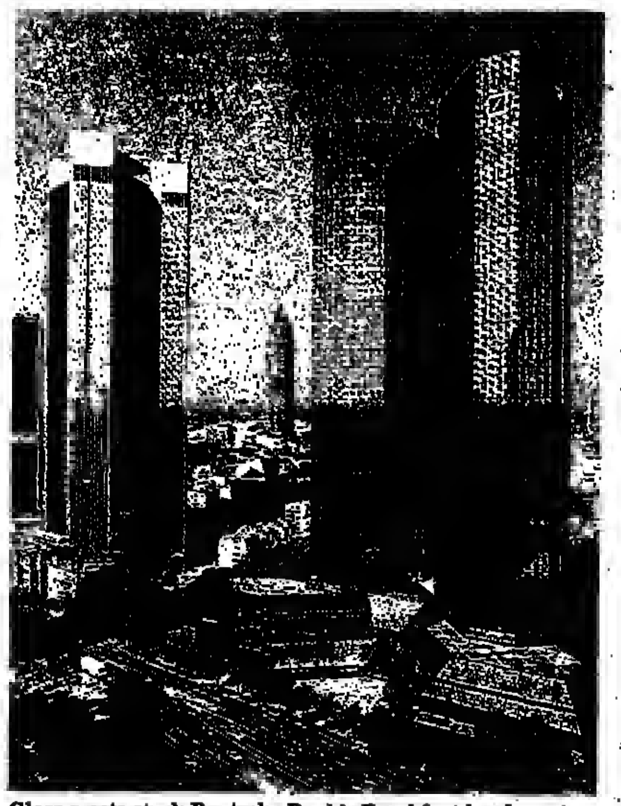
Since hostile takeovers are rare in Germany, it might seem inevitable that banks become caught up in the emotional maelstrom.

But two other factors come into play: the country's universal banking structure, in which big banks act as lender, deposit-taker, shareholder, stockbroker and merchant banker; and banks' general unpopularity in Germany.

The two are undoubtedly linked, although there is no evidence that Germans as a whole share the steelworkers' feelings.

If the banks emerge from today's agitation unscathed, the hostile bid could still become an accepted instrument of industrial change, as in the UK or the US. But after the past week's events, that remains to be seen.

Andrew Fisher



Glass meets steel: Deutsche Bank's Frankfurt headquarters, expected to be the scene of worker protests today

Krupp deal 'may not cut capacity'

By Stefan Wagstyl, Industrial Editor

The planned merger of Krupp-Hoesch and Thyssen's steel businesses may not produce any significant capacity cuts in European steelmaking, according to a leading consultants' report.

Beddows, a London-based consultancy specialising in steel, says in a report the merger will leave rival steel companies facing a much stronger German competitor. But other steelmakers will only benefit if they carry out further restructuring of their own.

Beddows says a merger would bring Krupp-Hoesch and Thyssen savings, but mostly in overheads and support functions and in better usage of plant – not in reductions in steel output. "As far as capacity rationalisation is concerned, there seems little reason for the rest of the steel industry to be optimistic."

It says the two companies would want to keep most of their combined capacity to retain market share, and avoid social and political fall-out that would ensue from cutting jobs in Germany. Together Krupp-Hoesch and Thyssen would lead in steel strip production, used in the motor and appliance industries, with an 18 per cent share of the EU market, compared with 18 per cent for France's Usinor Sacilor and British Steel's 9 per cent.

Fashion house founders cash in on kudos

Designer labels come off the catwalks and on to market, but 'glamour stocks' have proved fickle

Among the mêlée of models and photographers who raced backstage after Gucci's fashion show in Milan this month were a couple of investment analysts looking somewhat incongruous in Savile Row suits.

They were there to assess whether the clothes which will be sold in Gucci's stores next autumn are enticing enough for the company to sustain its recent growth.

Those analysts could soon have more shows to attend, because other fashion houses – Gianni Versace, Ralph Lauren and Valentino – may also go public.

These designers are considering flotation just as sales of global luxury goods are soaring.

However, the market in such goods is notoriously volatile.

For every success story such as Gucci, which has seen its shares treble since flotation 18 months ago, there is a tale like that of Donna Karan, the US fashion designer whose shares are worth half last July's issue price.

Neither Versace, Lauren nor Valentino have finalised their flotation plans, but at least one may float before the end of spring.

The latest fashion flotation, that of Adolfo Domínguez, the Spanish designer, set an encouraging precedent last week by being 50 times over subscribed, a record for the Madrid stock exchange. Domínguez's company is considerably smaller, and his public profile far lower, than those of Versace, Lauren and Valentino.

Gianni Versace is best known for designing unashamedly sexy clothes for Elton John and Sting, and the safety-pinned dress which turned Elizabeth Hurley from a little-known actress into a paparazzi star.

Founded in Milan in 1976, the Versace group is owned by the designer's family and run by his brother, Santo, as president.

The business expanded in the 1990s by opening new stores and developing cheaper ranges, such as Versace Jeans and Versus sportswear.

The wholesale turnover of Versace-branded products rose from L1,515bn in 1995 to an estimated L1,705bn ($1bn) in 1996. Net revenue increased from L684bn to L845bn over the same period, and pre-tax profits from L154bn to L175bn.

Ralph Lauren is a more conservative figure. He began his business in New York in the late 1960s and soon earned a reputation for creating contemporary versions of classic "preppy" styles.

Lauren's biggest commercial coup is the button-collared shirt in his less expensive Polo menswear line, which is a favourite of week-ending investment bankers.

The Lauren group is more reticent about its flotation plans than Versace. However, it is understood to have instructed Goldman Sachs, the US investment bank which is also a minority shareholder, to advise on prospects for a share issue.

Valentino has also appointed Goldman Sachs. Mr Giancarlo Giammetti, who co-owns the company with Valentino, confirmed it was "investigating different options", including flotation or an association with a larger group.

Dubbed the "Sheikh of Chic" by Women's Wear Daily, the US trade magazine, Valentino is renowned for the clothes worn by movie stars such as Elizabeth Taylor and Sharon Stone. His company's turnover rose from L1,290bn in 1996 to L1,380bn last year. L1,485bn is forecast for 1997.

All three designers – the youngest of whom, Versace, is now 50 – are clearly eager to cash in their substantial equity stakes.

Going public would also enable them to raise capital at a time when other luxury brands, notably Gucci and Prada, are expanding aggressively, particularly in Asia and Latin America.

"Glamour stocks" such as fashion houses have proved extremely popular, as illustrated by the success of the Gucci and Domínguez issues. Yet investors are aware of the erratic nature of the luxury goods market, which is sensitive to both the economic cycle and fashion trends.

Hence Donna Karan's shares have fallen because of concern about cost control.

"If companies do well in this sector, the rewards are fantastic," one analyst says. "But if there's a hint of trouble, no one wants to know."

Alice Rawsthorn

Valentino: 'Sheikh of Chic' is to follow the fashion for flotation and make his designs the basis of an investment

Restructuring helps Israel Chemicals recover

By Judy Dempsey in Jerusalem

Israel Chemicals, the export-driven state-owned chemicals group, returned to profit last year following a restructuring programme by Mr Shoul Eisenberg, chairman, who paid the government $230m for a 24.9 per cent stake in 1995.

The chairman has an option to acquire a further 17 per cent, which would cut the government's stake to just above 31 per cent.

Net profits in 1996 were $69.5m, against a loss of $25m the previous year. This was blamed mainly on charges related to the restructuring, which entailed reducing the workforce, shutting plants and moving its headquarters. After discounting Clearon, the US company, and the German-based B.K. Ladenburg group which ICL acquired in 1995, net revenuea rose 2.7 per cent, from $1.38bn to $1.63bn.

Mr Yigal Dimant, chief executive officer of ICL, said sales were boosted by a heavy investment programme, which rose from $538m in 1995 to more than $593m last year. Total investments will reach $2bn by the end of the decade.

Exports account for more than 90 per cent of the group's revenues, and although 60 per cent of production is located in Israel, ICL has embarked on an ambitious programme to acquire production facilities in the US, Germany, France and The Netherlands.

Part of that investment includes expanding the Dead Sea Works, a subsidiary of ICL and one of its most prized assets, which specialises in the production of potash. DSW holds a 7 per cent share of the global potash market currently led by Canadian companies. Potash accounts for 18 per cent of the global fertiliser market.

In a move to boost sales and tap the resources of the Dead Sea, DSW is investing $470m in building a production unit and power plant to produce magnesium. Volkswagen, the German automotive group, has already taken a 35 per cent stake in the project and will invest $75m-$80m in the plant.

● Israel Discount Bank, Israel's third-largest, said yesterday net income dropped 13 per cent in 1996 because of a sharp rise in debt provisions, writes Avi Machlis in Jerusalem. The bank is earmarked for privatisation this year.

Net income fell from $83m in 1995 to $72m last year, with provisions for doubtful debts leaping 44 per cent from $96.5m to $139m over the same period. Income from financing activities, before the provisions, was up 2 per cent from $694m in 1995 to $709m last year.

Expectations of steep provisions delayed a secondary offering of 17 per cent of IDB shares held by the government, planned for last month. Mr Dan Meridor, Israel's finance minister, asked the parliamentary finance committee at the weekend to re-approve the offering for April. The government, which holds 79 per cent of IDB, has pledged to rapidly sell-off its holdings in Israel's biggest banks.

The IDB offering is expected to raise about $165m. The bank's assets totalled $24.6bn at the end of 1996.

EUROPEAN NEWS DIGEST

Doughty to take 60% of Impress

Doughty Hanson, which claims to be Europe's largest private equity fund manager, has emerged as the main shareholder in a joint venture between Pechiney of France and Germany's Schmalbach-Lubeca. The new company, Impress Metal Packaging, brings together some of the companies' metal packaging and can operations.

Pechiney and Schmalbach-Lubeca will retain 20 per cent each in the venture, while Doughty Hanson will take 60 per cent. Doughty Hanson yesterday forecast the new company would have sales of DM3bn ($1.18bn) in its first year of operation, in line with aggregate 1996 figures from the various businesses. Impress will be based in the Netherlands, but have 35 manufacturing sites across 12 European countries and Japan. It will make cans for food packaging and for products such as paints and chemicals, as well as aerosol cans. The chairman will be Mrs Dominique Damon, who has been a senior executive at Alusuisse-Lonza and Rhône-Poulenc.

Doughty's latest deal follows its SFr1.8bn ($1.24bn) acquisition earlier this month of Swiss sanitary systems maker Geberit. In February it took over German machinery group Winkler and Dünnebier in a leveraged buy-out worth about DM250m. *Mark Mulligan*

Prague Breweries in the red

Prazske Pivovary (Prague Breweries), the Czech brewing group controlled by Bass of the UK, incurred a net loss of Kč119.1m ($4.1m) for 1996 as heavy investment costs took the fizz off a strong export performance. Group turnover reached Kč1.8bn, but a higher wage bill, the cost of expanding its distribution network, and investment of Kč508m in operations pushed the company into a loss. Comparisons with 1995 are complicated by the merger of PB, the core of the group, with Vratislavice and Ostravar, two smaller breweries.

Exports in 1996 of Staropramen, the group's premium brand, represented 16 per cent of total output and 24 per cent of revenues. Total output rose 45 per cent to just under 2.3m hectolitres. The group opened a new fermentation facility yesterday at the main brewery in Prague. The Kč200m facility is the first significant investment in the plant since acquisition by Bass, which now owns 55 per cent of the group.

Mr Graham Staley, chief executive, said negotiations were continuing with the IPB banking group about a possible increase in Bass's stake in Radegast, the second-largest Czech brewer. Bass wants to take its total share of the Czech beer market to 25 per cent and now owns 34 per cent of Radegast. *Vincent Boland, Prague*

KGHM sale advisers named

Merrill Lynch and Robert Fleming were yesterday named co-lead managers for the sale of KGHM Polska Miedz, Poland's integrated copper ore producer and smelter, which is due to be privatised in summer. BZW, Union Bank of Switzerland and the Wielkopolski Bank Kredytowy, the Polish government's advisers, are co-ordinating the sale globally as well leading the offer.

The announcement comes as the Solidarity trade union at the company, which employs about 20,000 people, is demanding a 20 per cent wage rise and 10-year employment guarantees for the workforce after the privatisation. Management has offered to consider a 17 per cent wage increase. Commerzbank, Creditanstalt, ING Barings, Nomura International and Paribas will be co-managers of the offer. *Christopher Bobinski, Warsaw*

Comsat to sell off non-core activities

By Christopher Parkes in Los Angeles

Comsat, the US satellite services company, is to sell off its entertainment division and a subsidiary that makes land-based dish equipment in an attempt to return to its roots and restore earnings growth.

The company will also press for privatisation of Intelsat, an international satellite consortium in which it owns a 20 per cent stake, and seek an end to regulatory oversight of its finances.

The plan was unveiled yesterday by Ms Betty Alewine, who was appointed chief executive last summer when Comsat profits were in free fall. Results released last month showed 1996 net income down 77 per cent at 18 cents a share.

Morgan Stanley, the investment bank, is to advise on the shake-out, the success of which will depend heavily on how effectively Comsat can be extricated from Federal Communications Commission control.

Regulation by the FCC of its rate of return was "no longer appropriate in current market conditions", the company said.

Comsat, a public company set up by Congress in the 1960s to manage the US stake in the Intelsat consortium, has suffered from the emergence of powerful, non-regulated competitors such as Hughes Electronics and Loral.

However, it has also moved into business sectors far removed from its core activities. Ascent Entertainment, of which Comcast owns 81 per cent, is a leader in the hotel pay-movie business and owns baseball and ice hockey teams.

Ascent has been on the market for several months, but with no buyers in the offing, Comcast has now made a request to the federal tax authorities for permission to spin it off as a tax-free dividend to shareholders.

A sale is also planned for Comsat RSI, a manufacturer of earth stations and advanced antenna and wireless systems.

The aim was to create a smaller company with a stronger balance sheet, Ms Alewine said. The remaining businesses, providing international satellite communications over Intelsat and Inmarsat, another internationally-owned satellite system, were well positioned in international markets and enjoyed a distinct competitive advantage, she added.

Cash flow from these divisions would help Comsat develop its digital network services, which already serve more than 600 corporate customers in a dozen countries.

Indications of prospects for deregulation are expected to emerge next month from a meeting of Intelsat government stakeholders.

Allen Born express rolls on

George Stoe departure may even have helped Alumax revamp

The message from Alumax, third largest of the US aluminium groups, earlier this month was to the point. Mr George Stoe, a vice-president and director, had resigned "as a result of management differences. No replacement will be named immediately as the company will use this opportunity to consider organisational changes."

Analysts said that this looked like a serious defection from Alumax, which Mr Allen Born, chairman and chief executive, has been changing dramatically since it was spun off from Cyprus Amax four years ago.

Mr Stoe had been with Alumax for 27 years and was frequently spoken of as heir apparent to 64-year-old Mr Born, who signed up to serve for five years after the spin-off in 1993.

Within days of Mr Stoe leaving, Mr Born announced he had set up "the office of the chairman" which would include Mr Tom Johnston, an executive vice-president, and Mr Lawrence Frost, executive vice-president and chief financial officer. Mr Johnston has had a long association with Alumax and its predecessor, Amax.

Mr Born says: "Tom Johnston and I have worked together in Australia, Asia, Japan, Europe and the US. He is one of the most astute businessmen I know. With our increasing international focus, he is the right man, at the right time, for the job."

Mr Born notes that so far he has been the only person responsible for Alumax's long-term strategy. "Now I have an operations expert and a financial expert to share the burden."

He admits he was already in the process of setting up the chairman's office before Mr Stoe departed. This leads some observers to jump to the conclusion that the process had something to do with the disagreement.

But Mr Born will not be drawn about this. "George [Stoe] asked us not to talk about the subject of the disagreement. All I can say is that there is no personal animosity between us. He will tell you I have been one of his greatest supporters."

He dismisses the idea that Mr Stoe was his natural heir apparent. "Any chief executive worth his salt has internal and external candidates lined up as possible successors. The board would want a gronp of candidates to choose from."

In any event, some of the pressure to find a replacement has eased because late last year Mr Born agreed to extend his contract to 1999.

Already he has spearheaded substantial change at Alumax, under what was dubbed Project Abe (for Allen Born's express). He recalls that after Alumax became a stand-alone company it was suffering losses and was deep in debt but "we could have hunkered down and waited for the aluminium price to improve. We decided that was not enough."

Project Abe has so far involved Alumax restructuring its aluminium sheet operations by closing two rolling mills, leaving the cut-throat can sheet market and selling its sheet distribution business. It also sold some non-core assets, raising $770m.

That more than covered the $430m cost of an important strategic acquisition, the Cressona company, a deal which Mr Born took a year to complete. Cressona more than doubled the size of Alumax's extrusions operations and gave it the largest soft alloy extrusion manufacturing capacity in the world. Mr Born expects demand for extrusions from the transport industry alone to grow at an annual 10 per cent for at least five years.

There were also investments: $91m to upgrade and expand rolling mills in Lancaster, Pennsylvania, and Texarkana, Texas; $26m for a new cast aluminium plate facility; $31m for a wide-foil mill; $100m for two new automotive component plants and $40m for a foil joint venture in China.

Meanwhile, throughout all its business units Alumax was shifting the product mix towards more customised and higher-margin products. For example, Alumax has quit the market for household foil but is concentrating on ultra thin foil of the type used in yoghurt pot lids or to wrap cigarettes. "This foil costs at least 50 cents a pound more than commodity household wrap," Mr Born says.

Alumax remains committed to being a low-cost producer of primary aluminium. "If you are a low-cost primary prodncer you must make money," Mr Born insists. Alumax's own operations absorb about 60 per cent of its primary outpnt but the company will need more capacity early next century.

It looked at the possibility of bidding for some of the aluminium production assets being privatised by the Venezuelan government but walked away when it was clear no guarantee would be given about future power costs. However, it is still considering a new smelter in Iceland in partnership with other groups.

Capital spending is winding down at present – it will be about $350m in 1997, including $97m for the purchase of the Texarkana mill which is leased. "But the benefits from these investments will begin to appear in our financial and operating results over the next few years," he says.

There will be no more big sales or purchases in the near future. "It is time to digest what we have done so far and to make sure the balance sheet is completely healed so we can snap up opportunities if they come along."

Kenneth Gooding

Allen Born: 'Any chief executive worth his salt has internal and external candidates lined up as possible successors'

AMERICAS NEWS DIGEST

Domtar seeks three-way merger

Two leading eastern Canada forest products groups have raised the possibility of a merger that would create one of the world's biggest pulp and paper groups. Avenor, a producer of newsprint and fine paper which this week is seeking shareholder approval for its C$1.5bn (US$1.1bn) share exchange offer for Repap, a coated paper producer, said it had been approached by Domtar with a proposal to merge once the Repap deal goes through.

Domtar, a big producer of business and fine papers, told Avenor that Quebec's public pension fund manager, the Caisse de Depot, supported the plan. The Caisse, which holds almost 10 per cent of Avenor's shares and is one of several big institutional holders of both Avenor and Domtar, confirmed that it would vote against the merger of Avenor and Repap after Avenor's rebuff of the proposal to put all three companies together.

Domtar repeated its proposal on Friday, but Avenor said its board decided it would be "inappropriate and unreasonable" to negotiate such a deal "at this time". Mr Denis Aubin, Avenor chief financial officer, said he believed the Repap merger would close on schedule. "We believe we have got strong support from our shareholders. We need two-thirds. We believe we're there," he said.

Avenor said it would examine as soon as possible all its strategic options once the Repap merger was completed. But it did not rule out a future deal with Domtar. The merger of the two would create a highly competitive pulp and paper group with annual revenues of nearly C$6bn.

Last Monday Domtar formed a technical partnership with Finland's UPM-Kymmene, including agreement "to explore areas of mutual interest". Last December Kymmene, a big coated paper producer, considered buying Repap as a foothold in North America.

Robert Gibbens and Reuter, Montreal

Tenneco buys KNP packagers

Tenneco, the US packaging group, said yesterday it would pay about $375m for 17 plastic packaging companies now owned by KNP BT, the Dutch paper packaging and distribution company. KNP predicted book profits of Fl 180m ($75m) from the sale and said it would concentrate on its waste paper packaging and board activities, which it claims are the third-largest in Europe.

Shares in KNP shed Fl 0.10 to reach Fl 39.60 on a slightly depressed Amsterdam exchange. The two companies had announced the sale in January, but pricing details only emerged yesterday. The plastic packaging division, which employs 3,000 in Europe, Egypt and North America, reported net sales of about Fl 1bn last year, and Tenneco said the purchase would double its sales in Europe.

"Acquiring this part of KNP BT makes us a leader in protective packaging in both the US and Europe and positions us for global growth serving such major industries as health care, electronics and auto parts," said Mr Paul Stecko, Tenneco chief operating officer. In the past two years, Tenneco has made approximately $1.6bn in packaging acquisitions, including Mobil Plastics, Amoco Foam Products and Delyn Plastics and Penlea.

KNP said last week that its first-quarter results would lag behind last year's in its three main activities. KNP plans to shed 1,000 jobs from its paper division and halt investments in this sector as it tries to find a partner this year. It also announced a new joint venture with Asia Pacific Resources International, of Indonesia, to produce coated fine paper at Changshu, near Shanghai in China. KNP would contribute equipment which was being replaced at KNP's plant in Austria.

Sander Thoenes, Amsterdam

PDVSA unveils $4.5bn profit

Petróleos de Venezuela (PDVSA), the Venezuelan state-owned petroleum company, announced record profits for 1996 of Bs2,350bn ($4.5bn), up from $2.9bn in 1995. Giving the results during its first annual shareholder's meeting, it said export oil prices were on average $3.55 a barrel higher than in 1995, though production of crude oil and condensates also increased over the previous year by 7 per cent, to 3.42m barrels a day. PDVSA attributed the improved performance to "continued efforts at cutting costs, increasing efficiency and its ability to respond to market changes".

The holding company paid the state Bs4,400bn in taxes and dividends last year, the highest amount ever. Last May's sharp increase in domestic petrol prices led to a reduction in petrol demand of 7 per cent, but increased demand for gas by 6 per cent.

Raymond Colitt, Caracas

Shell Canada plans stock split

Shell Canada, part of the Royal Dutch/Shell group, is planning a three-for-one split of its class A shares. Mr Chuck Wilson, Shell Canada chief executive, said: "We believe the stock split will benefit all shareholders by increasing the number of shares available for trading, and the lower share price will appeal to a broader range of investors."

The proposed split required shareholder approval at Shell Canada's annual meeting on April 30. If shareholders approved the proposal, the record date would likely be near the end of June, Shell Canada said.

"Shell Canada's share value has enjoyed steady growth from about C$34 in early 1993 to its current level of approximately C$57 per share," said Mr Wilson. Shell Canada shares were at C$56.50 before being halted yesterday for the stock split announcement. The company has 112.6m class A shares outstanding.

Reuter, Calgary

Cisco in Internet trial deal

Continental Cablevision, the US cable-TV operating arm of US West Media Group, and Cisco Systems plan to conduct trials of Cisco's most advanced Internet technologies. The companies said they would test technologies to deliver broadband Internet applications and services, including high-capacity streaming video, telephony over the Internet and interactive games. They also said they had agreed a marketing deal that would make Cisco networking products and support available to Continental customers as part of a one-stop shopping effort.

Reuter, Boston

Leo Burnett chiefs quit in row over costs

By Richard Tomkins in New York

Two top executives at Leo Burnett, the Chicago-based advertising agency, have unexpectedly left the company following an employee revolt against a cost-cutting drive.

Mr William Lynch, the 54-year-old chief executive, tendered his resignation after being told on Friday that he had lost the confidence of the majority of the board. His colleague Mr James Jenness, the 50-year-old chief operating officer, resigned with him.

Leo Burnett, which had billings of $5.82bn last year, ranks among the world's biggest and oldest-established advertising agencies. Creator of Tony the Tiger for Kellogg, the US cereal company, it has a large roster of blue chip clients including McDonald's, General Motors, Procter & Gamble and Walt Disney.

The company is privately owned by 250 shareholders who are all employees, and when people retire or leave, they are required to sell their shares back. Profit figures are not published.

Mr Lynch's cost-cutting began in 1993 at the request of the board, which wanted to rein in the company's spending.

Before then, Leo Burnett reputedly spared little expense in preparing for new account pitches or client presentations. Mr Lynch brought in Mr Jenness to help him boost efficiency, and their focus on costs apparently improved profits. Yesterday, the company said its financial position had "never been stronger", thanks largely to the efforts of Mr Lynch and Mr Jenness.

However, the cost-cutting began to rankle among employees, who felt the penny-pinching was inhibiting their ability to serve their clients properly and threatening the long-term future of the company.

The crunch came last year when Leo Burnett lost the highly-valued account for United Airlines, a client the company had served for 31 years and for which it had created the famous "Come fly the friendly skies" slogan. It also lost creative duties at another high-profile account, Miller Lite.

The loss of these accounts may not have been been directly related to the cost-cutting drive, but it helped undermine confidence in top management.

Leo Burnett said yesterday that Mr Lynch and Mr Jenness had decided to resign "in the best interests of the company".

Mr Lynch's place will be taken by Mr Richard Fizdale, the 57-year-old chairman. Mr Fizdale, who had been due to retire this year, handed the chief executive'a job to Mr Lynch four years ago.

New Windows faces delay

By Nicholas Denton in San Francisco

Personal computer manufacturers may miss the boost to consumer demand they were expecting from the release of a new generation of the Windows operating system software before the peak pre-Christmas sales season.

Microsoft, the software company which has developed Windows, said yesterday it had not yet determined whether the next version would be ready this year, bnt had warned PC makers there was a chance it would not be ready to be installed on machines for the crucial final quarter.

Delays are the norm in perfecting the complicated computer code of an operating system. Apple Computer's new operating system is several years late.

However, many manufacturers, looking to revive flagging PC sales in regions such as Europe, had taken Microsoft's intention to distribute a trial version of the oparating aystem by mid-year as meaning a possible full release in 1997.

Important revisions to operating systems, such as Microsoft's launch of Windows 95 two years ago, typically stimulate hardware aales because the programmes, usually larger and more complicated than their predecessors, require faster processors and larger hard disks to run properly.

A delay in the new Windows, which is designed to integrate Microsoft's Internet Explorer software for navigating the Internet, would give a breathing space to Netscape, Microsoft's main competitor in the market for browsers and other Internet software.

The likely delay gives Netscape, best known for its Navigator browser, more time to establish its Constellation software due ont later this year. Like the new Windows, this is meant to allow users to navigate their hard disk and the Internet with a similar visual interface.

COMPANIES AND FINANCE: ASIA-PACIFIC

Cosco to raise HK$1.2bn for port purchases

By Louise Lucas in Hong Kong

Cosco Pacific, the world's fifth-largest container leasing company, is to raise HK$1.2bo (US$155m) through a share placement to halp fund its purchase of ports in China and throughout the Asia-Pacific region.

Funds will initially be used to buy shareholdings in Chinese ports from the parent company Cosco (Hong Kong), the local arm of China's state-owned China Ocean Shipping.

Cosco Pacific said earlier this month it was negotiating an acquisition from its parent, and yesterday named the four ports involved in the HK$455m purchase. It will buy 50 per cent of Qingdao terminal, 51 per cent of Zhangjiagang terminal, 10 per cent of Shanghai and 5 per cent of Yantian.

The price is in line with the favourahle terms normally accorded to red chips – mainland-backed companies listed in Hong Kong – when assets are injected from the parent. It represents a 31 per cent discount on the net asset value (including a HK$608m shareholders' loan) of HK$655m, and a 52 per cent discount on the appraised value of HK$954m.

Combined throughput at the four ports last year was 2.2m TEUs (twenty foot equivaleot units), and is forecast to reacb 4.6m TEUs hy 2000.

Remaining proceeds from the placement will be used to expand terminals and container manufacturing plants, with HK$494m earmarked for further acquisttions of container terminals in the Asia-Pacific region.

BZW is acting as financial adviser to Cosco Pacific and the placing was underwritten hy both the UK investment hank and Salomon Brothers, of the US.

The placement price of HK$9.95 a share represeoted a discount of 5 per ceot to Friday's closing price of HK$10.50.

Yesterday the company also announced a 63.3 per cent rise in annual oet profits last year, from US$46.36m in 1995 to US$75.7m.

The increase was attributed to a 17.9 per cent expansion in the container fleet, growth in container leasing and enhanced profit margins at the Hong Kong container terminal 8.

Earnings per share rose 4 per cent, from 4.21 US cents last year to 4.38 US cents.

The final dividend is to be lifted from 8 HK cents to 9 HK cents.

Shaking the 'six pillars' of banking

Market expects mergers to follow biggest review of Australian financial sector since 1981

An air of nervous expectation surrouods Australiao bank shares. In contrast to tbe stock market's geoeral pre-Easter torpor, the banking sector index jumped 97 points yesterday, to close at 4,180.9 – a rise of 2.4 per cent. All the hig stocks joioed the charge, with National Australia Bank, the country's largest, gaining 42 cents to A$15.93.

The reason is a comprehensive review of the country's financial services sector, due to be released within days. The inquiry, headed by Mr Stan Wallis, ooe of Australia's most respected industrialists, was given an end-Marcb deadline for delivery of its report to the federal treasnrer (finance minister). But the documeot has already beeo printed, and a pre-Easter release is possible.

The inquiry's brief, outlined abortly after the new conservative coalition government took office a year ago, was wide-ranging. It was tasked with looking at ways in whicb Australia's financial system could improve efficiency without compromising safety – in particular, how it could best cope with technological change and increasing globalisation.

This is the first significant revlew of the country's financial sector since 1981, when the Camphell report was published. The ramifications of that study were momeotoos, espousiog deregulation and paving the way for a floating of the Australian dollar and admission of foreign banks to the domestic market. While the Wallis inquiry's focus has been narrower, it is expected to shape the sector for a decade at least.

Much of the immediate attention will be focused on recommendations for takeovers and mergers. At present, these are constrained by the "six pillars" rule, which prohibits mergers between the "hig four" commercial hanks (National Australia Bank, ANZ, Westpac and Commonwealth) and the two hig insurers (AMP and National Mutual).

The Australian Competition and Consumer Commission, which acts as arbiter on specific deals, has also been keen to consider competitive implications at state level, insisting that there be at least one stroog regional cootender (in addition to the hig four banks).

But in submissions to the inquiry, all the big groups have argued that the "six pillars" rule should go, and most analysts expect Wallis to eodorse this. Caution has beeo sounded hy the Reserve Bank, the ceotral monetary authority, which warned that shrinking the number of hig hanks from four to two would result in "the most concentrated banking iodustry in the industrialised world".

However, there has beeo disagreement over whether the relevant banking market definition, when competition issues are considered, should be regiooal, national or – as argued by ANZ – global. Also being considered is the extent to which new non-banking coocerns should be eocouraged to eoter the sector.

Specific issues likely to be coosidered by Wallis are whetber to make access to the payments system easier; whether to implemeot legal changes to eocourage electronic commerce; aod wbether to let financial services cooglomerates develop under a holding company structure. Barriers to foreign entrants will also be up for review.

Recommendations on the regulatory froot could have equally far-reaching consequences. If distioctions between banks and insurers, say, are blurring, there is strong argument for installing a "mega-regulator" and shifting responsibility for regulatioo away from the central bank. The hig insurers, like the AMP and National Mutual, favour this, as does NAB. But other banks prefer the curreot system, uoder which the Reserve Bank handles both mooetary policy and banking supervision.

If Wallis does recommend a more permissive regime, there is a general expectatioo that deals will flow; hence the surge io bank shares. Already, competition io the home loans market has encouraged consolidation among regional banks.

But not everyooe thinks that there will be an immediate merger rush. Mr Graham Malooey, analyst at Macquarie Bank, warns that, regardless of Wallis's conclusions, the ACCC's interpretation of any new regime will be "eveo more important".

He is also doubtful of the appeal of Australian banks to foreign partles – despite frequeot speculation that the likes of Hong Kong & Shanghai and Standard Chartered are looking. "Offshore banks generally regard Australia as too competitive and too expensive," he warns.

Meanwhile, Mr Peter Costello, federal treasurer, has cautiooed that the stock market should oot to jump to hasty conclusions. "I want to make clear . . . that oobody should take any commercial decision on the basis of the report's recommendation . . . Current policy stands until the government announces tbe policy changes," he bas stressed.

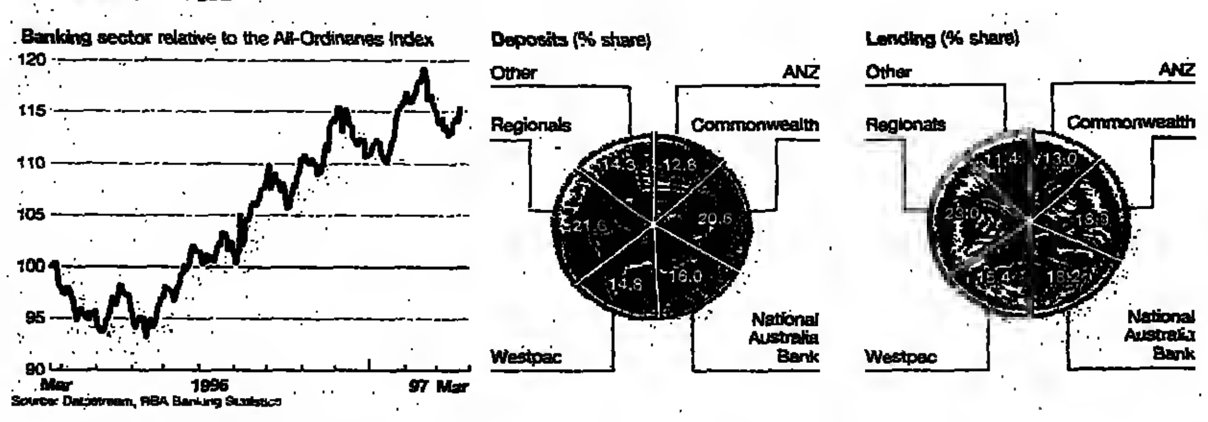
But yesterday, the speculative rise in bank share prices seemed an unstoppable tide.

Nikki Tait

NAB buy-back to go ahead

National Australia Bank, the country's largest commercial bank, said yesterday it was going ahead with plans to buy back and cancel 89.25m shares, or just under 6 per cent of its issued capital, writes Nikki Tait. The buy-back will run until October, or until the full number of shares has been acquired. NAB shares closed 42 cents higher yesterday at A$15.93.

Heads or tails



ASIA-PACIFIC NEWS DIGEST

MRCB to lift stake in TV3

Malaysian Resources Corp (MRCB), a diversified conglomerate, is preparing to divest its stake in the New Straits Times Press, the largest newspaper publisher, to TV3, a television station. TV3 is to finance its purchase by issuing new shares to MRCB, resulting in MRCB's stake in TV3 increasing to more than 50 per cent from 43.2 per cent. TV3 is feeling the effects of competition from Measat Broadcasting Network Systems.

James Kynge, Kuala Lumpur

Loss for Daiwa Securities

Daiwa Securities, one of Japan's top four brokerages, said it was expecting to make a substantial after-tax loss for the year to March 31. The company announced last year it would provide Y120bn (US$980m) in financial assistance to a non-banking affiliate, Daiwa Finance, and had planned to use gains from selling securities to cover the resulting exceptional loss, but the poor state of the stock market had forced it to reconsider. *Bethan Hutton, Tokyo*

Semen Gresik advances

Semen Gresik, Indonesia's largest publicly-listed cemeot company, said net income rose 26 per cent last year, supported by the acquisition of two cement companies in 1995. Net income was Rp219.3bn (US$91m) on net sales which increased 66 per cent to Rp1,363bn. Operating income rose 54 per cent to Rp321.5bn.

Manuela Saragosa, Jakarta

Filinvest profits up fourfold

By Justin Marozzi in Manila

Filinvest Development Corp (FDC), one of the Philippines' largest property and industrial development companies, more than quadrupled net profits last year to 4.03bn pesos ($153m) after strong gains in its commercial property business.

Sales rose sharply, trebling to 6.8bn pesos, led by the group's property businesses. Filinvest Corporate City, a 244 ha business and residential development of FDC and its subsidiary Filinvest Alabang, led the surge, contributing 2.73bn pesos to reveoues after lots sold increased from less than two hectares to five hectares.

FDC shares rose slightly to close at 7.5 pesos, up 10 centavos. Analysts said the group's shares were trading on a forward multiple of about 8.6 times, a substantial discount to the sector at 17.9 times.

COMPANIES AND FINANCE: UK

CWC formation moves into top gear

By Alan Cane and Christopher Price

The formation of the UK's largest provider of integrated telecommunications and television services moved into top gear yesterday, with the issue of the prospectus for Cable and Wireless Communications.

CWC, valued by analysts at about £4.5bn ($7.15bn) will be created from the Cable and Wireless offshoot, Mercury Communications, together with the cable companies, Nynex CableComms, Bell CableMedia and Videotron, in a hugely complex deal.

Mr Richard Brown, chief executive of C&W and chairman of CWC, said: "This is a growth company in a growth market in a growth industry." He added, "There will be one name and one brand – Cable and Wireless."

The move will mean the disappearance of Mercury and the cable companies' various local brand names. Mr Brown said he wanted to increase C&W's 52 per cent holding in the new company, possibly by acquisition.

The new company will have 1.1m telecoms customers and 590,000 cable television customers, with particular strength in the London and Manchester regions. One analyst said it would have immediate access to "29m pairs of ears and eyes".

Proforma financial information for the company shows it made pre-tax profits of £93m in the nine months to March 31, 1997 compared with £46m in the 12 months to March 31 1996. Exact comparisons are difficult because of disposals.

Revenue was £1.51bn in the nine months of 1997 and £1.9bn in 1996. The company's operating margin grew from 5.7 per cent in 1996 to 9.8 per cent in 1997. It does not intend to pay dividends for the foreseeable future.

Mr Graham Wallace, chief executive of CWC, said he expected revenue growth to come from improvements to service and cost savings. The group is expected to rationalise network control centres and customer support operations.

CWC will pay no tax for at least the next two years because of relief on the losses sustained by the cable operators which are still building out their networks.

Under the terms of the deal, each share in Bell CableMedia, which is quoted on the US Nasdaq market, will be valued at 0.694 of a CWC share, while each share in Nynex CableComms, traded in London, will be valued at 0.367 of a CWC share.

After the merger, Nynex Corp and Bell Canada will own 18.5 per cent and 14.2 per cent respectively. About 15 per cent of the shares will be held by the public. The first closing date of the offer is expected to be April 25.

LEX COMMENT

Governance

One of the arts of war is to pick one's battles. Britain's corporate governance enthusiasts seem not to have grasped this point. Take the recent flood of governance guidelines from institutional investors. These pronouncements are brimming with good sense; yet they try to cover a huge range of ground and are all subtly different. So companies are swamped with rules. And worse, they can plausibly claim to have no clear idea of which ones really matter.

The latest offering – Hermes' suggestion that retiring chief executives should generally not become non-executive chairmen – is a case in point. One can see what Hermes is driving at: a forceful ex-chief executive may lack genuine independence and meddle in operational management.

On the other hand, his experience and knowledge can often be valuable. The balance depends on the individual and the circumstances; this should be a matter of case-by-case judgement, not a crude general rule. And institutions should be wary of swamping the argument with doubtful rules; they unhelpfully distract from sounder-based governance principles which matter more.

The real lesson? Simply that a clearer sense of institutions' priorities is required. And more dialogue between them is needed to achieve it.

The aim should be to spotlight the principles which really matter, and the companies which fail to live up to them. Less convincing proposals, however well-intentioned, should not be allowed to get in the way.

Blue Circle makes first Canadian purchase

By Andrew Taylor, Construction Correspondent

Blue Circle Industries, Britain's biggest cement manufacturer, is stepping up its presence in North America with its first Canadian acquisition.

The company has agreed to pay C$365m ($261m) cash for St Mary's Cement Corporation, which supplies about a quarter of Ontario's cement sales. The state is home to about 40 per cent of Canada's population.

The purchase price, after adding net debt of C$66m at the end of December, was equivalent to 13.5 times last year's after-tax profit of C$32m on sales of C$407m.

Mr Keith Orrell-Jones, Blue Circle chief executive, said the Canadian Portland Cement Association had forecast 5.7 per cent increases in cement demand in Ontario for both 1997 and 1998. St Mary's had net assets of C$284m at the end of last year.

Details of the purchase, first signalled in January, accompanied Blue Circle's announcement yesterday of a 9 per cent pre-tax profits increase last year to £297.6m before exceptional items.

The previous year's pretax profits of £263.8m were depressed by a £9m net charge to cover the reorganisation of the group's heating and bathroom products divisions, said Mr Orrell-Jones.

Profits were assisted by a big turnround in the European heating division, following its reorganisation, with profits doubling to £35m. Costs worth £26m a year had been taken out of the business.

Another £5m a year of savings were expected to be released over the next two years. Bathroom profits, however, dipped to £24.6m (£27m) reflecting tough trading profits in continental Europe.

US cement, aggregates and concrete profits rose by 19 per cent to £75.3m helped by a combination of price and volume sales increases.

Ashley Ashwood

Keith Orrell-Jones: 5.7 per cent forecast increases in cement demand in Ontario

Inchcape gets Toyota boost

By Ross Tieman

Pre-tax profits from continuing operations at Inchcape, the international distribution group, surged 12 per cent to £165m ($262m) last year, powered by a recovery in its core vehicle importing and distribution business.

Mr Philip Cushing, chief executive, said better cars from Toyota, its biggest supplier, helped improve sales, and combined with cost cutting, to improve profit margins.

In the year to December 31, Inchcape sold 210,000 vehicles worldwide, from 37 manufacturers, generating automotive operating profits up 29 per cent to £127m.

The figures were helped by an upturn in the UK car market, where demand for luxury marques was particularly strong. Sales of Ferrari sports cars surged 20 per cent to 300 vehicles.

The improvement in group profits came despite standstill turnover of £6bn during a year of restructuring. A shake-up was launched by Sir Colin Marshall, the British Airways boss who became chairman in January last year, and Mr Philip Cushing, promoted to chief executive two months later.

In October, the group sold its Testing Services arm to management and Bain Hogg, its insurance broker, to Aon Corporation, raising a total of £540m and clearing all debts.

Mr Cushing, chief executive, hailed the profit improvement as: "the beginning of a brighter future".

The high costs of opening shops in Japan to sell Timberland boots and clothes caused operating profits from the international marketing operations to fall 7 per cent to £30.2m.

Efforts by Inchcape to replicate the success of its Chilean Coca-Cola bottling operation in Peru and Russia also met mixed success. The Peruvian soft drinks market shrank by eight per cent, while construction of the company's second pair of Russian plants has fallen six months behind schedule.

Inchcape yesterday reinforced its grip on the Peruvian bottling. Emotella-dora Latinoamericana, which it controls, has agreed to buy the San Luis table water brand and Kola Inglesa, a soft drink, for £24.6m.

Mr Cushing said Inchcape was seeking to acquire more bottling companies around the world, with the blessing of CocaCola.

Former UA boss in cinema move

By Raymond Snoddy

Mr Stewart Blair, former chairman of United Artists Theater Circuit, the largest cinema chain in the world, has joined a small London-based company, Pacific Media, to begin building up a new international cinema group outside the US.

Mr Blair, also a former senior vice president of Tele-Communication Inc, the largest US cable company, resigned from UA in December.

The Scottish born executive is joining Pacific Media, a company listed on the Alternative Investment Market, as chief executive of a newly created subsidiary to develop, build and operate cinemas throughout the world outside of North America.

Brazil and South Africa are likely to be the first targets.

"The international theatre business is the growth area of the out-of-home entertainment business," Mr Blair said yesterday.

Pacific Media currently has a joint venture with United Artists to develop cinemas in the Far East through which two cinemas are operating successfully in Singapore and two more are planned in Bangkok later this year.

The company also has a 20 per cent stake in The Chinese Channel, a Chinese language satellite channel in Europe.

The new Pacific Media subsidiary hopes to raise between $60m to $80m over the next four years. It aims to build a chain of about 250 cinemas worldwide, typically with 50 per cent local partners and leased sites.

"There are a lot of potential investors in the international theatre business but they do not have many ways of participating," says Mr Blair.

Mr Michael Buckley, chairman of Pacific Media and former chairman of SelecTV, said yesterday there was now "a window of opportunity to develop and build an international movie theatre circuit".

Pacific Media said yesterday that Deloitte & Touche Corporate Finance had been appointed its corporate adviser and de Zoete & Bevan, the broking arm of BZW, the company's broker.

Mr Blair said the main issue was finding the right sites rather than raising what would be an initial $20m.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amey	Yr to Dec 31	324.6	(244)	11	(5.32)	22.4	(12.7)	6	May 30	4.7	9	7.1
Antofagasta	Yr to Dec 31	180.4	(178.3)	44.6	(78.2♥)	19.3	(35.3)	4.5	June 26	4.5	8.5	8.5
Barracoe	Yr to Dec 28	195	(148.8)	23	(16.8)	37.51†	(33.01)	9.73	May 19	9.3	15.1	13.9
Blue Circle	Yr to Dec 31	1,815	(1,775)	297.6	(263.8♠)	23.5	(18.4)	9	July 1	8.5	13.28	12.5
Brammer	Yr to Dec 31	204.9	(183)	28.2	(21.6)	40.7	(31.5)	10.75	July 1	9.5	16	14.26
Cap & Regional	Yr to Dec 25	17.8☐	(10.1☐)	6.05	(4.74)	12.21	(8.85)	2	May 9	1.7	3	2.5
Datrontech	Yr to Dec 31	207.1	(130.2)	8.06	(6.06)	15.3†	(12.6)	4.2	May 30	2.74	6.5	3.89
EBC	Yr to Dec 31	55.4	(54.2)	0.869	(0.855♠)	5.33	(3.7)	1.5	May 16	1.35	2.5	2.25
EBS Φ	Yr to Dec 31 5	5	(2.97)	9.41L♠	(10.9L)	80L†	(85L)	-	-	-	-	-
Fired Earth	Yr to Dec 31	9.17	(6.76)	0.752	(0.526)	8.7	(6.1)	1.2	May 23	1	2.2	2
Forth Ports	Yr to Dec 31	84.7	(47.3)	22.2	(15.3♥)	38.8†	(29.4)	9	May 23	8	13	11.8
Gander Φ	Yr to Jan 31	1.45	(0.756)	0.372	(0.24)	0.1†	(0.09)	-	-	-	-	-
Global	Yr to Dec 31	148.2	(119.4)	4.18	(2.91)	1.87†	(1.51)	0.44	May 30	0.4	0.66	0.6
How	Yr to Dec 31	137.1	(125.1)	2.72♥	(1.2♥)	4.88	(2.7)	1.4	July 1	0.75	1.8	1.125
Inchcape	Yr to Dec 31	6,263	(6,296)	107♠	(17.4♠)	4.3	(8.3)	6.3	July 1	4	11.60大大	11.5大大
Jacobs	Yr to Dec 31	41.7	(23)	3♥	(0.196♠)	3.4	(1.9)	1.5	May 22	0.9875	1.825	1.35
John Mansfield	Yr to Dec 31	11.1	(8.52)	0.307	(0.13)	0.36	(0.15)	-	-	-	-	-
Kingspan ♣	Yr to Dec 31	126.1	(89.4)	13.3	(6.11♥)	37.8	(18.7)	2.8	June 23	2.3	4.5	3.7
Llocat	6 mths to Dec 31	12.5	(11.9)	1.61♥	(1.01)	10.3	(7.1)	3.2	Apr 25	2.7	-	8.2
Morgan Crucible	Yr to Jan 4	897.5	(847.8)	100.2	(85)	29.1	(25.2)	8	July 7	7.55	14.8	13.8
Nestor-BNA	Yr to Dec 31	130	(129.1)	2.02L♠	(8.31)	5.43L	(5.79)	2.2	May 23	2	3.40	3.15
Newport	Yr to Dec 31	2.69	(2)	0.283♥	(0.212)	3.47†	(2.87)	1	May 27	0.75	1	0.75
Northern Leisure	6 mths to March 2	15.1	(13.4)	3.71♠	(2.53)	5.4	(4.5)	2.5	June 2	2	[illegible]	4.25
Nottingham Group	Yr to Dec 31	54.65	(49.54)	4.25♠	(6.88)	5.33	(8.82)	3.91	May 16	3.81	5.76	5.75
Domicare Φ	Yr to Dec 31	7.38	(1.77)	1.13	(0.612)	8	(6.6)	1	-	0.5	1.025	0.5
Padang Senang	Yr to Dec 31	0.668	(0.889)	0.37♠	(0.524)	5.23	(7.13)	3.75大	Apr 25	4.5大	3.75	4.5
Plasmec	Yr to Dec 31	14.8	(13.8)	1.29	(1.34♥)	19	(19.5)	3.75	July 1	3	8	5
PPL Therapeutics	Yr to Dec 31	2.5	(4.47)	8.2L	(1.44L)	41L	(32L)	-	-	-	-	-
Scruttons Φ	Yr to Dec 31	42.1	(41.1)	0.142L♠	(1.33)	16.4L	(18.4)	7	May 27	7	13	13
Seafield Resources	Yr to Dec 31	7.59	(6.14)	3.06	(1.87)	1.1	(0.8)	-	-	-	-	-
SerX	Yr to Dec 31	22.6	(21)	2.4L	(0.4L♥)	2.6L	(0.5L)	-	-	-	-	-
Severfield-Reeve	Yr to Dec 31	65.1	(39.2)	4.53	(2.22)	16.34	(9.58)	3.5	May 30	2	5.25	3
Sherwood Group	Yr to Dec 31	165.1	(179.6)	5.01♠	(17.2♠)	1.7	(8.8)	2.3	May 21	2.3	3.6	3.6
Sharpe & Fisher	Yr to Dec 31	73.5	(83.5)	5.2	(3.84)	18.1	(12.2)	3.8	June 6	3.5	5.7	5.2
T&S Stores	Yr to Dec 28	500.2	(445.2)	17.7♠	(15.5)	16.79	(16.13)	4.75	May 30	4.3	7.75	7.1
Taylor Nelson AGB	Yr to Dec 31	88.9	(80.2)	5.03♠	(6.53)	1.18	(2.02)	0.41	July 1	0.35	0.8	0.7
Tele-Cine Cell	Yr to Dec 31	13.3	(12.1)	0.807	(1.4)	4.5	(7.6)	1.8	May 20	3.6	3.6	5.4
TransTec	Yr to Dec 31	259.8	(211)	14	(6.72)	7.1†	(4.8)	1.8	July 7	1.5	2.34	2.2
Travis Perkins	Yr to Dec 31	518.5	(491.6)	39.8	(36.5)	25.8	(23.7)	7	May 19	6.5	10	9.3
Tullow Oil ♣	Yr to Dec 31	5.87	(5.31)	2.35	(1.19)	1.07†	(0.66)	-	-	-	-	-
Ulster TV	Yr to Dec 31	34.5	(34.2)	9.02♥	(8.2)	11.48	(10.35)	2.85	May 27	2.5	5.1	4.5@
Bolvent Φ	Yr to Sept 30	1.78	(1.81)	0.191	(0.224)	1.9	(1.8)	-	-	-	-	-
Upton & Southern	6 mths to Jan 25	6.18	(4.81)	0.41	(0.274♥)	0.21†	(0.14)	-	-	-	-	-
VCI	Yr to Dec 31	98.2	(76.6)	9.05	(8.03)	19.5	(17.3)	5.5	June 3	4.9	7.8	7.1
Waterford Wedgwood ♣	Yr to Dec 31	378.3	(344.5)	34.9	(28.1)	4†	(3.38)	1.1	May 30	0.8	1.4	1.2
Wates City London	Yr to Dec 31	6.38☐	(6.04☐)	0.191♠	(0.682)	0.7L	(0.48L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
First Russian $	Yr to Jan 31 ♦	1,908	(965.5)	1.69L	(0.14)	28.02L	(2.5)	-	-	-	-	-
Wiscox Select	Yr to Dec 31	101	(100.1)	0.883	(0.74)	2.94	(2.47)	1.3#	May 2	1.2	2.6	2.4
Invesco Japan	6 mths to Jan 31	59.1	(89.26‡)	0.035L	(0.001)	0.13L	(nil)	nil	-	nil	nil	nil

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ☐Gross rental income. $US currency. ♣Irish currency. 大Foreign Income Dividend. 大大Includes FID element. ΦAim stock. ■Final forecast of not less than 2.75p. @Excludes special. ♦Comparatives for 14 months. #Second interim; current period covers 15 months. ‡At July 31.

TECHNOLOGY

The pharmaceutical industry looks likely to benefit from breakthroughs in testing for impurities and screening chemical compounds

Tiny menace: the new technique will be able to identify e.coli in under three hours

Mark Mulligan reports on a new method of identifying harmful micro-organisms in water

Bacteria buster

Leading pharmaceutical companies are testing new technology which its maker claims could in some applications render obsolete the century-old Agar plate method of identifying harmful micro-organisms.

Merck of the US, Rhône-Poulenc of France, and the UK's Glaxo Wellcome are among the first companies to evaluate the ChemScan rapid microbial analyser, which is used to test the purity of water in their products.

Instead of having to wait for up to seven days to develop live cultures in a Petri dish, laboratory workers can detect a single cell of bacteria such as e.coli in under three hours.

The analyser relies on a unique fluorescent labelling process that allows it to count and identify single cells on a filtered sample. A sample of water, for example, is passed through a fine membrane which retains the micro-organisms on its surface. After filtration, the membrane is transferred to an absorbent pad saturated with a labelling solution and left for 30 minutes. During labelling, the retained micro-organisms are stained with fluorescent markers via an enzyme-linked reaction with the cell cytoplasm.

The ChemScan, composed mainly of laser beams, mirrors and analytical circuitry, can distinguish between micro-organisms and normal auto-fluorescent particles on the basis of their higher light intensity. A digital signalling system also distinguishes cell characteristics such as shape and size.

Different fluorescence reagents have been developed for specific contaminants.

The results of the laser scan are represented as a type of map pinpointing and counting microbial cells. The membrana can be examined further under a microscope.

The machine has been developed by French biotechnology group Chemunex, in co-operation with The Technology Partnership near Royston, Cambridgeshire.

Chemunex plans an initial public offering to European institutional investors with a listing today on the Easdaq exchange. Nomura International, which is sponsoring the deal, says Chemunex is looking to raise about FFr70m (£7.7m) for further research, development and marketing.

Louis Foissac, the Chemunex chairman, says real-time detection of contamination in raw material gives producers the chance to stop production without wastage.

"Manufacturers will save valuable material by detecting contaminations sooner, and consumers will be better protected against potential microbial contaminations through faster and more sensitive analytical procedures," he says.

For now, the machine is used mainly to verify the sterility of water in pharmaceuticals production, although Foissac says the technology could be adopted by water companies or anywhere where water purity cannot be compromised. "We've done tests with contact lens solutions – even with shampoo," he says.

Drug companies evaluating ChemScan's effectiveness have declined to publicly endorse it.

However, a scientist at one says ChemScan could be applied in most instances where sterility, or an acceptable level of micro-organic growth, had to be evaluated. Apart from water for pharmaceuticals, this includes testing work surfaces, workers' skin and the quality of air.

Chips cut laboratory costs down to size

William Macdonald on how 'miniature' experiments can make drug research work more efficient

The invention of the silicon chip has revolutionised the electronics industry, and now the idea is being copied to cut the cost of laboratory experiments and diagnostics. Messy bottles of reagents, racks of test tubes and miles of tubing are being replaced by the "laboratory on a chip".

During the past two years, miniaturised laboratory procedures have become increasingly popular. One stimulus has been the huge research effort necessary at various laboratories worldwide to "sequence" or identify all the elements of the human genome. It became apparent very early on that big reductions in laboratory costs would be required to make the project workable.

Simultaneously, competitive pressures mean that pharmaceutical companies must screen ever more new chemical compounds in the search for a "blockbuster" drug.

Caliper Technologies, based in California, was set up in 1995 to exploit this trend. Last year the company announced it had raised $8.5m (£5.3m) in a second round of financing, which included a $4m investment by Roche, to apply its "laboratory on a chip" technology to pharmaceutical discovery. The technology will be used to carry out 500,000 drug screening experiments a day.

"You can get quite a sophisticated experiment done on a chip about the size of your thumbnail," says Michael Knapp, Caliper's vice-president of science and technology. "There are two interesting things you can do with this technology; one is to create tiny automated systems which are doing complete experiments – a very complicated experiment can be done by a non-expert. The other is to perform a very large number of experiments very quickly."

A chip can mimic apparatus such as pumps, separation equipment, pipettes and beakers

Although the chip's surface appears to be nothing more than a series of channels, it has features that mimic traditional laboratory apparatus – pumps, valves, pipettes, beakers and separation equipment. The channels are typically 10 microns deep and between 10 microns and 100 microns wide through which liquid is pumped at about 1 nanolitre per second.

To give some idea of the scale, it would take a year for a tablespoon of liquid to flow through these channels. To perform an experiment with the chip, it is inserted into a PC-based "player" in much the same way as a CD. An electric field is applied which causes the fluid to be pumped through the channels by a process known as electrokinesis.

Computer programs control the voltage so that reagents are added and reactions occur in the proper sequence. Finally, a detector reads the fluorescence of the sample and a result is produced.

The chips are produced in much the same way as microelectronic chips through photolithography and chemical etching. Caliper recently signed an agreement with Dow Chemical to start producing the chips in plastic.

"We want to disseminate the technology very widely," says Knapp. "The goal is to keep the chips as cheap as possible. Right now we are making them in glass which is a nice material to work with, but the process of micromachining is quite expensive by comparison to things like injection moulding."

He sees the CD as a potential model for mass production of the chip. "The CD has features that are about the same size as we are talking about," he says.

Decked out: the European Fighter Aircraft will need modification to be able to land on a carrier

Wind of change for aircraft carriers

Huge fans blowing a gale of wind over the stern of aircraft carriers could make landing fighter aircraft on their decks easier and safer. They may even do away with the need for arrester wires.

Fighter aircraft such as the Eurofighter (EFA) need serious modification to adapt them for an aircraft carrier. They must be strengthened to carry the arrester hook, stronger under-carriages are needed to withstand landing shocks and engines need to be uprated.

These are expensive add-on costs. British Aerospace engineers at Farnborough have devised a way of reducing the landing speed needed by creating an artificial wind. Carriers usually steam at up to 20 knots to reduce landing and take-off distances. Extra wind over the deck is gained by steaming into the prevailing wind.

The artificial wind would be created by powerful generators placed beneath the deck at the stern of the carrier. These may be engine-driven propellers, or more likely, jet engines. The wind would be directed through louvres in the landing deck towards the landing aircraft.

The direction of the air leaving the louvres would be controlled by flaps on the stern to allow for the varying approach angles of different aircraft.

The result should be a sharp reduction in the touch-down speed of carrier-borne aircraft. Using RB211 jet engines to produce the wind it is estimated that touch-down speeds of less than 20 knots, relative to the aircraft carrier, may be possible for aircraft which normally approach at about 120 knots.

The idea is being tested in a wind tunnel at Farnborough, and is one of a number of projects to enable the EFA to use aircraft carriers. If successful it would be another first for British aeronautical engineers who earlier invented the steam catapult and the angled deck.

Michael Sibley

LAW

Trade ban fails test

EUROPEAN COURT

An EU country cannot prohibit trade between member states in a product manufactured outside the EU, merely because the owner of the trademark in the importing member state does not consent, the European Court of Justice ruled.

The ruling arose in the context of a damages action for breach of contract before the French courts. The action was for wrongful termination of a contract to purchase a plant health product manufactured in Turkey but imported into France from Germany.

The purchaser had cancelled the contract on the grounds that the French trademark owner would not agree to the marketing of the product and that under French law, the sale should not go ahead.

The seller of the product argued that French law was incompatible with European law, because under European law products lawfully imported and marketed in any member state could be traded throughout the EU without restriction.

The French court referred the issue to Luxembourg for determination. The Court first found that the relevant European law provisions applicable to the case were those in the European Trade Mark Directive.

These provided that trademark owners were not entitled to prohibit the use of their marks in relation to goods which had already been put on to the market in the EU under those marks by their owners or with their consent.

However, the court said that prohibition did not apply when legitimate reasons existed for the trademark owner to oppose the further commercialisation of the product in question.

The national court mentioned that the product to be imported into France would not have undergone any change except for the addition of a label designed to comply with French law.

Despite the fact that the case was to be interpreted in the light of the directive's provisions and not those of the treaty, the Court said its jurisprudence on the matter of the exhaustion of trademark rights arising out of judgments dealing with the relevant provisions of the treaty, was relevant in the present matter.

That jurisprudence provided that the owner of a trademark protected by the legislation of one member state could not rely on that legislation to prevent the importation or marketing of a relevant product which had been marketed either by that owner or with his consent in another member state.

The Court reiterated that such a doctrine applied where the owners of the mark in both the exporting and importing country were either identical or were different but linked economically.

According to the order for reference from the French court, holders of trademarks in Germany and France fell in those categories.

The Court then held that the fact that the product in question was manufactured outside the EU was of no importance. The judges found that the French rules which allowed the owner of the trademark in France to sue for infringement on the basis that there was no consent for the importation of the product from Germany, were incompatible with European law.

C-352/95: Phytheron International SA v Jean Bourdon SA, ECJ 5CH, March 20 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Clariant shuffles its management

Clariant, the Swiss chemicals company, may be taking over Hoechst's much bigger specialty chemicals business, but Hoechst's younger executives are going to play a prominent role in what will be the world's biggest specialty chemicals company.

Rolf Schweizer, 66, continues as chairman of Clariant's management board but Karl-Gerhard Seifert, 51, a senior Hoechst executive, takes over from Martin Syz as Clariant's chief executive. Syz, 61, becomes chief operating officer and will be responsible for the integration of the divisions in tha new company.

Clariant's old divisional structure has been replaced by six new divisions, four of which will be headed by Hoechst executives. Ulrich Cuntze (cellulose ethers and polymerisates); Günther Hencken (Masterbatches); Klaus Warning (surfactants); Hartmut Wiezer (fine chemicals). From the Clariant side, Peter Brandenburg will head the process and performance products division and Victor Sanahuja will run the pigmants and additives division. The heads of the divisions will report to the chief executive.

Roland Lösser, Clariant's chief financial officer, keeps the same job. However, Hanspeter Knöpfel has been put in charge of business development. Reinhard Handte of Hoechst will head the German Clariant and be responsible for research and development and environmental protection and safety at the group level. Joachim Mahler, another Hoechst executive, will coordinate the regions. *William Hall, Zurich*

World Bank auditor

Brian Smouha, currently a liquidator of the collapsed Bank of Credit and Commerce International, has been appointed lead auditor to The World Bank. Smouha, 58, will be moving to Washington DC to take up his new post, and will be joining the US firm of Deloitte & Touche although he may remain a partner of the UK firm. Smouha (pictured left) has been involved in several high-profile marathon appointments as an insolvency expert.

He was a liquidator of Banco Ambrosiano, the collapse of which followed the discovery in June 1982 of the body of Roberto Calvi, its chairman, hanging under Blackfriars bridge in central London. The scandal embroiled the Vatican bank and some of Italy'a best known financial names.

The liquidation of BCCI has recently been marked by the first payment to creditors five years after the bank's collapse following the discovery of the world's biggest banking fraud. Both liquidations broke new ground in organising cross-border insolvencies.

Deloitte & Touche take over the audit of the bank for the coming year from Price Waterhouse. *Jim Kelly, London*

Novell's new head

Eric Schmidt, an Internet software pioneer, joins Novell, the struggling computer natwork software company, on April 7, as chairman and chief executive.

Schmidt joins Novell from Sun Microsystems where as chief technology officer he spearheaded the development of the widely-used Java programming language.

Prior to joining Sun in 1983, Schmidt was a member of the research staff at Xerox and held positions at Bell Laboratories and Zilog.

Novell has been searching for a new chief executive since the resignation of Robert Frankenberg, for personal reasons, last August. John Young, former chief executive of Hewlett-Packard and a member of Novell's board, had been acting chairman of Novell on a temporary basis. Young will step down to become vice chairman.

The appointment is seen as a coup for Novell, which has been struggling to regain its momentum for the past year. A long-time leader in the market for computer network operating systems, Novell floundered through a series of acquisitions in the early 1990s that failed to live up to expectations. *Louise Kehoe, San Francisco*

JCI's new chairman

Mzi Khumalo, a former detainee who spent 12 years with Nelson Mandela on Robben island, the notorious jail for political prisoners, has been appointed chairman of JCI, the world's sixth largest gold producer.

His appointment marks the birth of South Africa's first black-controlled mining house, following the sale in November of Anglo American's controlling stake to the African Mining Group, a consortium of black buyers.

He will be joined on the board by Reuel Khoza, chairman of the African Mining Group, which has agreed to pay R2.9bn for a 37 per cent stake in JCI. No more new directors will be appointed until the consortium, which failed to raise funds for the purchase ahead of the initial February 28 deadline, has paid for the acquisition.

Khumalo was released during the general amnesty for political detainees in 1990, and eschewed the political limelight to concentrate on building Capital Alliance, a black-controlled financial services group.

In contrast to the earlier sale of Anglo's controlling stake in Johnnic, an industrial holding group with an array of minority stakes in blue chip industries, JCI is an operating company. "We are are moving into a controlling position", Khumalo said. "I am not interested in passive investments." *Mork Ashurst, Johannesburg*

ON THE MOVE

■ SALOMON BROTHERS have appointed Justin Kennedy and Michael Yeatts, both as vice-president, Asia Pacific equity trading. Both have join from Wheelock NatWest Securities Hong Kong where they were directors of equity trading.

■ Nick Salmon rejoins GEC ALSTHOM on June 1, as managing director of the power generation division, succeeding Kelvin Bray. Salmon, chief executive of Babcock International Group in the UK, will be a member of the executive committee.

■ ALUMAX INC have promoted Robert Wolf, vice-president and general counsel to senior vice-president and general counsel.

■ Paul Morris has joined SCHRODER CAPITAL MANAGEMENT as head of US equities. Sharon Haugh becomes chairman of Schroder Capital Management Inc. She takes over from David Salisbury who will remain on the SCM board.

■ NIKKO EUROPE, the European investment banking arm of Nikko Securities, has appointed Bill Tweddle as managing director of fixed income sales.
Nikko Europe has also established an analytical finance group within the fixed income division and appointed Tristan Williams and Kambiz Deljonie as directors to develop it.

■ ZURICH INSURANCE GROUP has realigned responsibilities at the level of the corporate executive board. Steven Gluckstern has been appointed to the board and Detlef Steiner, formerly responsible for reinsurance and alternative risk financing, takes over responsibility for the new corporate customers division.

■ A C NIELSEN has announced a reorganisation of its Asia Pacific region and appointed a new leadership team. Asia Pacific chairman K. N. Tang will oversee the area of strategic business units.

■ Pehr Gyllenhammar is to join the supervisory board of POLYGRAM subject to formal approval by Polygram's shareholders at the company's next annual general meeting. He succeeds Frederick Hulton who is standing down at the end of his four year term.

■ GUANGDONG DEVELOPMENT FUND have appointed Kang Dian and Christopher Rose as non-executive directors of the company. Cai Jinghua and John Richardson have resigned as non-executive directors.

■ Dutch Bank ABN AMRO has appointed Nancy Fox as divisional director of securitisation within the bank's Australian operation. Col McKeith becomes head of treasury in Australia, replacing Peter Nichols who has left the bank.

■ RAYCHEM CORPORATION, one of the world's leading materials science companies, has appointed Arati Prabhakar as senior vice-president and chief technology officer. Prabhakar has been serving in the Clinton administration as director of the US National Institute of Standards and Technology.

■ ROCKWELL INTERNATIONAL CORP has appointed Dennis Popovec as vice-president and treasurer.

■ ROYAL BANK OF CANADA has appointed Kristin Yeatman as senior manager in multinational banking. Yeatman will be responsible for corporates and government in Norway and forestry product companies in Europe.

■ Ulf Spang has been appointed executive vice-president and chief financial officer of SKANDIA INSURANCE, from May 1.

■ LIEBERT EUROPE has appointed Richard Phipps as European president.

■ John Wright has left the post of chief executive at NORTHERN & NATIONAL IRISH BANK, Ireland which he has held since 1993, to head the Gulf Bank, Kuwait.

■ Peter Eschenbach has joined INTERACCIONES GLOBAL to head the company's London office and cover institutional clients in the UK and Europe.

■ HFS Inc has appointed Craig Hoenshell, as chairman and chief executive of Long Island, NY-based Avis, the world'a second largest rental car system, effective immediately.

■ CREDIT SUISSE FIRST BOSTON has appointed Alan Smith as managing director and vice chairman of the company's Pacific region. Smith, to be based in Hong Kong, will act as a senior banker for major regional corporate and government entities.

■ Colin Campbell has been appointed general manager for wholesale banking at NATIONAL AUSTRALIA BANK, subsidiary Bank of New Zealand.

■ AMERICAN RE, a unit of Germany-based Munich Re Group, said that Paul Inderbitzin has resigned as chairman, president and chief executive to pursue personal business interests. Inderbitzin has been succeeded as president and chief executive by Edward Noonan, president of American Re-Insurance's domestic insurance company operations since 1994.

■ Andronico Luksic Craig becomes the new president of BANCO SANTIAGO, taking over from Julio Barriga, who has resigned. The changes in the management of Banco Santiago, the result of the January merger of Banco O'Higgins and Banco de Santiago, had been expected.

■ Ricki Helfer, chairwoman of the FEDERAL DEPOSIT INSURANCE CORP, is resigning as head of the bank and savings institution regulatory agency with effect from June 1.

■ Ole Lund is resigning at the end of March as president and chief operating officer of GN DANAVOX, Denmark, but will remain available to the company in the subsequent period. Jorn Kildegaard, GN Great Nordic, has been appointed as acting president and chief operating officer for GN Danavox until a successor to Lund has been appointed.

■ Benny Wong Pui-tong has resigned from the board of SWIRE PACIFIC and has been replaced by Davy Ho Cho-ying.

■ Larry McCurdy has been appointed president, chief executive and a director of ECHLIN INC.

■ Prime Minister Kamal Ganzouri has appointed ex-banker Abdelghani Gamie as chairman of the Egyptian stock exchange. He replaces Nassef Nazmi Girgis, a veteran broker who was elected by fellow brokers in 1995.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

INTERNATIONAL CAPITAL MARKETS

Europe stronger in subdued trading

GOVERNMENT BONDS

By Samer Iskandar in London and Lisa Bransten in New York

Most European bonds were slightly stronger yesterday, with the exception of the Italian market. Trading was subdued in most markets, ahead of today's meeting of the US Federal Reserve's Open Market Committee.

Rising expectations of an increase in interest rates by the Fed have been weighing on bond prices in the US and Europe – but analysts believe a tightening of 25 basis points is now priced into the market.

Mr Adrian Owens, an economist at Julius Baer Investments, attributed yesterday's rise to technical factors. "The market was oversold on the belief that the Fed would tighten," he said. "But now a rate rise is discounted and should not have much effect on prices. It would be seen as pre-emptive."

German bunds managed a modest rise. In London, the June future on 10-year bunds closed 0.19 higher at 100.13.

However, market strategists at Sanwa International warned that the market remained in a bearish mode. "A test of key support around 99.25 is likely on the back of a US rate hike," they said.

Italian BTPs underperformed bunds, their 10-year yield spread widening by 12 basis points to 196 points. The June BTP future, listed in London, settled at 124.50, down 0.58, after reaching an intraday low of 124.12.

Analysts said the weakness was partly a technical retracement of last week's strength relative to other markets. BTPs' 10-year yield spread over bunds ended the week at 184 basis points, down from 205 points on Monday.

Ms Sharda Persaud, an economist at Sao Paolo Bank, said that traders were also worried that the mini-budget, due to be revealed on Friday, might "not go as far as expected". Two key areas in need of reform, public health and pensions, might not be touched.

Furthermore, market participants were hoping the mini-budget would include savings of up to L20,000bn. But Ms Persaud said the savings were more likely to be about L15,000bn.

Another factor weighing on Italian bonds is the diminishing likelihood of further cuts in interest rates by the Bank of Italy. Ms Persaud said a monetary easing was becoming less likely because of indications of stronger economic growth.

"We have seen the last of any cuts we are going to see, especially if the US Fed raises its rates," she said.

Mr Owens at Julius Baer also warned that "the high-yielding markets tend to under-perform in an environment of rising rates".

UK gilts were supported by bullish economic data. The June long gilt future rose ¼ to settle at $109\frac{10}{32}$, then gained another ⅛ in after-hours trading.

The annual rate of growth of gross domestic product was revised to 2.6 per cent for the fourth quarter of 1996, from a preliminary estimate of 2.7 per cent.

Although the revision was minimal, economists at Nikko Europe pointed out that "the failure of consumption to grow more strongly adds weight to the view that [interest] rates will remain on hold for the time being".

French bonds also suffered from the uncertain interest rate environment, especially from comments by Mr Ernst Welteke, a Bundesbank board member, who said that German rates would have to rise if the US Fed tightens policy today.

Although the June notional future rose 0.02 to close at 127.86, OATs traded in the cash market underperformed bunds. The 10-year yield spread of bunds over OATs narrowed from 13 basis points to 10 points.

US Treasury bonds climbed in quiet trading early yesterday, as the market braced itself for an increase in interest rates, which most on Wall Street expect today.

In late morning trade the benchmark 30-year Treasury was ⅜ stronger at 96 to yield 6.938 per cent, while the two-year note rose ⅛ to 99⅜, yielding 6.255 per cent. The Chicago-listed June 30-year bond future rose ¼ to 108⅞.

Activity was extremely quiet as traders awaited the outcome of today's meeting of the FOMC. A majority of economists are forecasting a 25 basis point increase in the target Federal funds rate.

Mr John Spinello, a government securities strategist at Merrill Lynch, said most investors had already placed their bets by the end of last week, which allowed the market to post some gains early yesterday.

"I think the market is psychologically ready for the Fed to make the move," he said. "If you did get the move there would be a knee-jerk reaction to the downside, but it would settle not a lot lower than it is now."

● The London International Financial Futures and Options Exchange and Deutsche Terminbörse, the two exchanges that list futures contracts on German bunds, yesterday suspended trading in the December 1997 maturities of those contracts.

Liffe said it was suspending the contract pending a review of legal specifications, particularly criteria for deliverable debt.

This move follows the announcement by the Bundesbank outlining its issuance policy for the second quarter, which shows a change to the issuance of 10-year debt.

Liffe said the suspension did not affect members or end-users of its products, since there was no open interest on the December maturity. DTB also suspended dealings in its December bund future, which was expected to start trading today.

CAPITAL MARKETS NEWS DIGEST

Record year for securities issuance

All previous record volumes of primary issuance and secondary market turnover were surpassed last year, according to the 1996 annual report of the International Securities Market Association. New issues of securities rose to the equivalent of $716bn, up 59 per cent from 1995.

Mr John Langton, Isma chief executive, attributed the surge to several factors, including "a declining interest rate pattern; low inflation; relative currency stability; and the natural desire of borrowers to lock-in some of their borrowing requirements at historically attractive rates".

Issuance in the dollar sector more than doubled, from $145bn in 1995 to $337bn last year, while the D-Mark sector retreated from $89bn equivalent to $79bn. Sterling issuance was particularly strong, rising 255 per cent to the equivalent of $51bn. In total, some 30 different currencies came to the market, evidence of global investor demand, according to Isma.

Secondary market trading also rose substantially. The combined turnover reported by Cedel and Euroclear, the international clearing banks, reached $45,033bn, up roughly 31 per cent from $34,456bn in 1995. *Samer Iskandar*

Egypt to raise E£3bn

Egypt plans to issue up to E£3bn ($880m) in short-term bonds to retire a part of its domestic debt and restore confidence in the Egyptian pound. The issue, which is expected to have a 9.25 per cent coupon and to be made in May, comes amid calls from foreign financial institutions for Egypt to develop its debt market. Egypt's internal debt is predicted to reach E£135bn, or 54 per cent of GDP, in June, down from 61 per cent of GDP a year earlier.

Plans for a two-year international or eurobond have been mooted in recent months and the government has also been considering an issue of locally-traded Egyptian pound bonds, to follow an E£4bn issue of seven-year bonds last October. Due to heavy oversubscription of previous issues, interest rates have diminished on treasury bills. *Mark Huband, Cairo*

Philippine samurai planned

The state-owned Development Bank of the Philippines is set to issue $200m worth of samurai bonds to finance its housing loans. An official from the Department of Finance said the Japanese market had been chosen because it offered favourable rates. The issue, whose launch is planned within the next two to three months, is expected to have a rate of 3 per cent or less and a minimum tenor of five years.

Delays in the release of money from state pension funds for the government's housing programme have led to delays in the local housing backlog and pressure on property groups such as C&P Homes, the low-cost housing specialist, causing a decline in property share prices. The Department of Finance is now looking at ways to develop a secondary mortgage market. *Justin Marozzi; Manila*

NatWest securitises £1bn of housing loans

INTERNATIONAL BONDS

By Edward Luce

NatWest Market's £1bn securitised offering dominated otherwise lacklustre trading yesterday ahead of today's meeting of the US Federal Reserve.

The seven-tranche offering, which will be serviced by income from 38,000 loans to British public housing associations, is the largest such exercise under the UK's *private finance initiative*, which enables the state to take financial assets off its balance sheet.

Traders said that the A1 £727m tranche, priced at 60 basis points over long-dated UK gilts, received a cautious response in the markets.

The offering, which carried an average maturity of 28.6 years, had initially been pre-marketed at around 45 basis points over gilts, say traders. But NatWest had widened the spread after consulting investors.

"Once a lead manager backs off like that and widens the offer spread, the market gets the feeling it could wait for some more widening before it's worth buying. It may take a little while for NatWest to clear this paper," said one trader.

Traders also said the second tranche of the offering – the A2 £115m bonds priced at 80 basis points over gilts – had caused problems. The tranche was set up to handle unexpected loan prepayments by the housing associations. "There is no real benchmark for a fixed-rate prepayment risk," said one trader. "So it is very difficult to get the pricing right."

NatWest said most of the bonds sold had been distributed to UK institutions – particularly pension funds, life insurance companies and some asset-backed companies. Officials said proceeds from the loan would go through Orchardbrooke, a special holding company, which would in turn service the debt. The exercise covers about half the UK's 2,000 housing associations, which are under charter to provide low-cost housing.

The securitisation is the latest and the largest to date in a series of asset-backed deals under the UK's private finance initiative. Last October, a consortium which owned the UK Ministry of Defence's living quarters issued a £900m bond backed by rental incomes from the tenants.

Other UK securitisation deals are thought to include lease income from property owned by the Department of Social Security and the government's student loan portfolio.

Bankers in London said that an incoming Labour government would not be expected to oppose the scheme.

See UK News, First Section

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Eksportfinans(l)★	100	5.90#	100.00	Apr 2000	1.31	-	Yamaichi Intl (Europe)
STERLING							
FRESH, Srs 1, Cls A1(a1)#	727.884	11.125	127.039	Apr 2050	0.625	+60(8%Jun21)	NatWest Markets
FRESH, Srs 1, Cls A2(a2)#	115.905	11.125	120.204	Apr 2050	0.625	+80(8%Jun21)	NatWest Markets
FRESH, Srs 1, Cls A3(a3)#	37.090	11.125	124.62	Apr 2050	0.625	+80(8%Jun21)	NatWest Markets
FRESH, Srs 1, Cls B(a4)#	37.090	11.128	122.136	Apr 2050	0.625	+100(8%-21)	NatWest Markets
DANISH KRONER							
ABN Amro Bank	400	5.625	101.75	May 2002	1.875	-	ABN Amro Hoare Govett

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Finance for Residential Social Housing. Average lives: a1) 28.47 yrs. a2) 19.34. a3) 28.47. a4) 28.48. a5) Series 1, Class C: £9.7m. a6) Series 2, Class A: £40.9m. Class B: £3.1m. a7) Series 3, Class A: £9.7m. l) Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		3.750	11/06	81.3840	-0.130	8.04	7.85	7.35
Austria		5.625	01/07	98.4000	+0.130	5.84	5.66	5.59
Belgium		6.250	03/07	101.4800	+0.130	6.05	5.83	5.54
Canada *		7.000	12/06	102.9000	+0.220	6.59	6.54	6.33
Denmark		8.000	03/06	108.5800	+0.180	6.71	6.42	6.23
France	BTAN	4.750	03/02	99.3750	-0.250	4.88	4.60	4.35
	OAT	5.500	04/07	97.6700	-0.030	5.81	5.55	5.43
Germany Bund		6.000	01/07	100.6300	+0.100	5.91	5.72	5.58
Ireland		8.000	08/06	107.3100	+0.100	6.91	6.71	6.41
Italy		8.750	02/07	92.7200	-0.520	7.81†	7.59	7.08
Japan	No 143	6.300	09/01	120.1702	-0.960	1.58	1.22	1.38
	No 182	3.000	09/05	104.8827	-0.300	2.35	2.21	2.39
Netherlands		5.750	02/07	99.7000	+0.120	5.79	5.48	5.36
Portugal		9.500	02/06	116.1000	-0.200	7.03	6.85	6.63
Spain		7.350	03/07	101.2800	+0.010	7.16	7.01	6.75
Sweden		8.000	08/07	104.1303	-0.370	7.41	7.08	6.69
UK Gilts		7.000	06/02	98-20	-2/32	7.32	6.88	6.75
		7.250	12/07	97-17	+3/32	7.59	7.34	7.13
		9.000	10/08	109-31	-5/32	7.88	7.43	7.21
US Treasury *		6.250	02/07	96-18	+2/32	6.73	6.70	6.41
		6.625	02/27	96-00	+4/32	6.94	6.95	6.70
ECU (French Govt)		7.000	04/06	104.9800	+0.050	6.26	6.06	5.82

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.27
Prime rate	8¼	Two month	-	Three year	6.45
Broker loan rate	7	Three month	5.40	Five year	6.60
Fed.funds	5$\frac{5}{16}$	Six month	5.57	10-year	6.73
Fed.funds at intervention	-	One year	5.84	30-year	6.86

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	127.92	127.86	+0.02	128.14	127.74	79,820	154,344
Sep	126.34	126.26	+0.02	126.34	126.22	52	2,151
Dec	96.04	95.96	+0.02	96.04	96.04	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
127	0.65	1.06	1.40	0.33	0.74	1.08
128	0.17	0.58	0.88	0.84	1.26	1.55
129	0.02	0.26	0.50	1.70	1.94	2.17
130	0.01	0.06	0.27	2.69	2.76	2.93
131	-	0.03	0.13	3.66	3.70	3.79

Est. vol. total, Calls 23,811 Puts 18,528. Previous day's open int., Calls 157,178 Puts 158,379.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	100.04	100.13	+0.19	100.20	99.89	126611	239041
Sep	99.30	99.20	+0.12	99.30	99.02	501	1060

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
10000	0.75	1.02	0.80	1.10	0.62	0.89	1.60	1.90
10050	0.49	0.75	0.61	0.89	0.86	1.12	1.91	2.19
10100	0.30	0.55	0.45	0.72	1.17	1.42	2.25	2.52

Est. vol. total, Calls 12254 Puts 10669. Previous day's open int., Calls 173651 Puts 198617

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	125.35	124.50	-0.58	125.43	124.12	57956	105327
Sep	124.50	124.55	-0.58	124.50	124.50	68	3124

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
12450	1.74	2.71	1.74	2.66
12500	1.45	2.44	1.95	2.89
12550	1.18	2.18	2.19	3.13

Est. vol. total, Calls 9416 Puts 12954. Previous day's open int., Calls 92940 Puts 95649

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	111.11	111.12	+0.07	111.36	110.63	61,829	77,504
Sep	-	110.31	-	-	-	-	-

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	109-27	109-28	+0-05	109-27	109-15	986	22810
Jun	109-11	109-10	+0-04	109-14	108-27	53210	176266

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls May	Calls Jun	Calls Jul	Calls Sep	Puts May	Puts Jun	Puts Jul	Puts Sep
109	1-08	1-36	1-46	2-11	0-52	1-18	1-54	2-19
110	0-39	1-04	1-18	1-46	1-19	1-48	2-26	2-54
111	0-20	0-44	0-60	1-22	2-00	2-24	3-04	3-30

Est. vol. total, Calls 492 Puts 254. Previous day's open int., Calls 53655 Puts 25257

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	93.32	93.30	-0.02	93.55	93.28	969	5,057

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	108-20	108-27	+0-04	108-27	108-12	221,041	426,065
Sep	108-05	108-13	+0-04	108-13	108-05	406	26,690
Dec	-	107-28	-	-	-	200	5,380

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	125.10			125.23	125.04	1954	n/a
Sep	123.74			123.85	123.74	135	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Mar 24	Day's change %	Fri Mar 21	Accrued interest	xd adj. ytd		Low coupon yield Mar 24	Low Mar 21	Low Yr. ago	Medium coupon yield Mar 24	Medium Mar 21	Medium Yr. ago	High coupon yield Mar 24	High Mar 21	High Yr. ago
1 Up to 5 years (19)	119.44	0.00	119.45	1.64	3.40	5 yrs	7.35	7.35	7.51	7.41	7.41	7.54	7.45	7.45	7.64
2 5-15 years (20)	149.11	0.07	149.00	3.06	2.12	15 yrs	7.73	7.73	8.26	7.72	7.73	8.27	7.61	7.66	8.38
3 Over 15 years (7)	166.59	0.00	166.60	4.04	3.15	20 yrs	7.80	7.79	8.34	7.75	7.75	8.34	7.61	7.67	8.44
4 Irredeemables (5)	193.11	-0.75	194.56	3.41	2.13	Irred.†	7.67	7.61	8.39						
5 All stocks (51)	143.23	0.03	143.19	2.79	2.87										

Index-linked							Inflation 5% Mar 24	Mar 21	Yr. ago	Inflation 10% Mar 24	Mar 21	Yr. ago
6 Up to 5 years (2)	203.17	-0.06	203.29	0.72	2.18	Up to 5 yrs	3.33	3.30	3.02	2.58	2.65	1.65
7 Over 5 years (10)	195.69	-0.11	195.90	1.33	1.81	Over 5 yrs	3.59	3.58	3.81	3.38	3.36	3.60
8 All stocks (12)	195.41	-0.10	195.62	1.26	1.83							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Mar 24	Mar 21	Mar 20	Mar 19	Mar 18	Yr ago	High*	Low*
Govt. Secs. (UK)	94.11	93.90	93.88	94.07	94.58	92.30	96.74	91.59
Fixed Interest	117.69	117.66	118.05	118.10	118.23	110.86	120.18	110.74

Gilt Edged Activity Indices

	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17
Gilt Edged bargains	NA	107.3	168.4	138.4	84.6
5-day average	NA	115.0	110.2	93.1	82.2

 * for 1996/97. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on March 24

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	97⅝	97¾	+⅛	6.98
ABN Amro Bank 7¼ 06	1000	100	100¼	+⅛	7.38
African Dev Bk 7⅝ 23	500	97½	97⅞	+¼	7.60
Alberta Province 7⅝ 98	1000	101⅝	101⅞	-⅛	6.49
Asian Dev Bank 6¼ 08	750	95⅝	95¾	+⅛	7.06
Spain 7¼ 03	4000	109¼	109⅜	+⅛	5.39
Volkswagen Intl Fin 7 03	1000	107	107¼	+⅛	5.82
World Bank 5¾ 03	3000	103⅛	103¼		5.30
World Bank 6¾ 02	3000	104⅝	104⅞		5.13
World Bank 7¼ 00	3000	108⅝	108¾	+¼	5.75
Abbey Natl Treasury 8 03 £	1000	100⅞	100⅞		7.92
British Land 8⅞ 23 £	150	98⅝	100		9.11
Denmark 6⅜ 98 £	800	99⅜	99⅞	+⅛	6.90
Depfa Finance 7⅛ 03 £	500	95⅞	96⅛	+⅛	7.94
EIB 8 00 £	1000	101⅝	101¾	+⅛	7.65
Finland 7 00 £	500	98¾	99		7.39
[illegible]					

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		6.96	6.15	100½	-⅛	101⅛	100⅛
Treas 8¾pc 1997‡‡		8.66	6.22	101⅛		107$\frac{13}{32}$	101⅛
Exch 15pc 1997		14.29	6.28	105		114⅞	102$\frac{23}{32}$
Exch 9¾pc 1998		9.51	6.48	102½		109$\frac{21}{32}$	100⅛
Treas 7¼pc 1998‡‡		7.20	6.60	100⅝xd		109⅛	100⅛
Treas 15½pc '98‡‡		13.80	6.81	112⅞xd		122⅛	112⅛
Exch 12pc 1998		11.12	6.86	107$\frac{29}{32}$	-⅛	114⅞	107⅞
[illegible]							

CURRENCIES AND MONEY

Dollar steady in quiet trade

MARKETS REPORT

By Emiko Terazono

The dollar closed marginally higher after a quiet session as traders remained cautious ahead of today's US Federal Open Market Committee meeting.

The US currency rose 0.4 pfennigs against the D-Mark to DM1.688 and Y0.385 against the yen to Y122.82. Traders waited for the FOMC meeting at which the US Federal Reserve is expected to raise interest rates.

The consensus is that the Fed will increase rates by 25 basis points, although some analysts pointed out there is a small risk that rates may remain unchanged, or raised by 50 basis points instead. Since a 25 basis point increase has been discounted into the dollar, anything different could come as a nasty shock. Leaving interest rates unchanged may especially be negative for sentiment, said Mr Michael Burton, head of foreign exchange sales at Goldman Sachs in London. "There is a danger of not giving the market the medicine it needs," he added.

■ Sterling gained ground supported by strong economic data and a weaker D-Mark. The pound gained 2.2 pfennigs against the D-Mark closing at DM2.7217 after hitting the highest level in two weeks in earlier trading.

GDP growth for the fourth quarter were in line with forecasts, but followed a spate of stronger-than-expected economic figures last week, fuelling perceptions of a rise in UK interest rates after the general election on May 1. While electoral uncertainty is expected to keep some investors from taking large positions, the pound has priced in a clear Labour victory, said traders.

With the economy showing signs of continued growth, a new Labour government is likely to raise interest rates before the summer recess. One risk, however, would be a hung parliament, said Mr Steve Hannah, head of research at IBJ International in London. "It would be disaster for the markets since it would muddy the waters," he said.

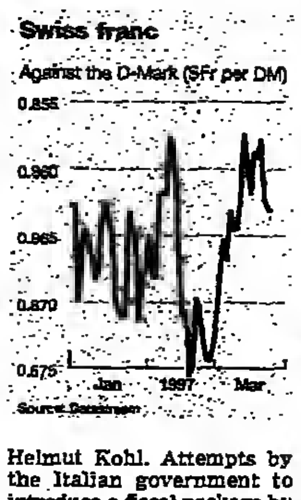
■ Rumbles over the European monetary union continued to affect sentiment. Mr Theo Waigel, the German finance minister, became the most recent to cause jitters over Emu, as reports of his comments that welfare cuts and even tax hikes were the price of Germany joining Emu highlighted the rift between him and Chancellor Helmut Kohl. Attempts by the Italian government to introduce a fiscal package by the end of this week to bring the country in line with the Emu convergence criteria is expected to cause volatility this week. "Emu will be the focus of the market until the Amsterdam summit in June," said Mr Michael Burke, senior economist at Citibank.

■ The Swiss franc closed almost unchanged ending at 86.32 centimes against the D-Mark in Zurich. The currency had recently gained ground on hopes that that it would be a "safe haven" amid Emu jitters, but was hit late last week by comments by Mr Bruno Gehrig, board member of the Swiss National Bank, that monetary policy would be eased further in the event of franc strength.

Mr Gehrig noted weak domestic lending, adding that unlimited intervention would be applied as last resort in order to prevent the Swiss franc from rising, and some traders fear that the currency may be close to the top of SNB's target range against the D-Mark.

■ Fears of a further rise in the consumption tax hit the Tokyo stock market, dragging down the yen. While the Japanese currency regained some ground, analysts expect the yen to weaken following the start of the new fiscal year next month due to the outflow of capital.

■ Seven of the 10 riskiest currencies are in Eastern Europe and the former Soviet Union, says the DRI/McGraw-Hill's Global Risk Service. Unsurprisingly, its latest Country Risk Review ranks the Albanian lek as the world's riskiest currency followed by the Zairean zaire and the Syrian pound. The probability that the top ten riskiest countries may succumb to a currency depreciation during the next 12 months range from 75 per cent to 45 per cent.



■ Pound in New York

Mar 24	—Latest—	— Prev. close —
£ spot	1.6180	1.6035
1 mth	1.6174	1.6029
3 mth	1.6158	1.6010
1 yr	1.6075	1.5923

■ OTHER CURRENCIES

Mar 24	£	$
Czech Rp	46.9956 - 47.0702	29.1590 - 29.1890
Hungary	284.852 - 285.092	176.740 - 176.790
Iran	4837.80 - 4835.10	3000.00 - 3000.00
Kuwait	0.4882 - 0.4901	0.3029 - 0.3039
Poland	4.9640 - 4.9700	3.0800 - 3.0820
Russia	9202.81 - 9211.17	5710.00 - 5712.00
U.A.E.	5.9149 - 5.9231	3.6700 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Mar 24		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.1560	+0.1543	467 - 653	19.1843	18.9843	19.1125	2.7	19.056	2.1	-	-	103.9
Belgium	(BFr)	56.1706	+0.4707	146 - 265	56.2370	55.7890	56.0456	2.7	55.7856	2.7	54.4606	3.0	103.8
Denmark	(DKr)	10.3744	+0.0847	698 - 789	10.3880	10.3071	10.3624	2.5	10.3069	2.5	10.0969	2.7	106.1
Finland	(FM)	8.1277	+0.0679	206 - 348	8.1390	9.0730	-	-	-	-	-	-	83.0
France	(FFr)	9.1820	+0.0679	779 - 862	9.1969	9.1243	9.1599	2.9	9.1162	2.9	9.8991	3.1	108.7
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.8823	+0.034	798 - 847	11.9140	11.8630	11.8676	1.5	11.8223	2.0	11.6273	2.1	103.7
Belgium	(BFr)	34.8420	+0.111	170 - 670	34.9310	34.7920	34.782	2.1	34.6545	2.2	34.1145	2.1	103.8
Denmark	(DKr)	6.4351	+0.0191	341 - 361	6.4544	6.4279	6.4262	1.7	6.4078	1.7	6.3261	1.7	105.0
Finland	(FM)	5.0415	+0.0159	385 - 445	5.0632	5.0344	5.0327	2.1	5.014	2.2	4.9315	2.2	93.1
France	(FFr)	5.6955	+0.0125	945 - 965	5.7120	5.6880	5.6848	2.3	5.6638	2.2	5.5555	2.5	106.4
[illegible]													

WORLD INTEREST RATES

MONEY RATES

March 24	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3[illegible]	3½	3¾	3½	3[illegible]	6.00	2.50	-
France	3¼	3[illegible]	3[illegible]	3[illegible]	3[illegible]	3.10	-	4.75
Germany	3[illegible]	3[illegible]	3[illegible]	3[illegible]	3[illegible]	4.50	2.50	3.00
Ireland	5[illegible]	5[illegible]	5¾	5[illegible]	5⅞	-	-	6.25
Italy	7[illegible]	7[illegible]	7[illegible]	7[illegible]	7[illegible]	8.25	6.75	7.38
Netherlands	3[illegible]	3[illegible]	3[illegible]	3[illegible]	3[illegible]	-	3.00	3.30
Switzerland	1⅞	2[illegible]	2	1[illegible]	1[illegible]	-	1.00	-
US	5[illegible]	5[illegible]	5[illegible]	6[illegible]	6¼	-	5.00	-
Japan	[illegible]	½	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5[illegible]	5[illegible]	5¾	6[illegible]	-	-	-
US Dollar CDs	-	5.45	5.52	5.64	5.92	-	-	-
ECU Linked Ds	-	4[illegible]	4[illegible]	4¼	4[illegible]	-	-	-
SDR Linked Ds	-	3[illegible]	3⅝	3[illegible]	3[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 24	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¼ - 3¼	3½ - 3¼	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	3¾ - 3⅝	3⅞ - 3¾	[illegible] - 4
German Mark	[illegible]	3¼ - 3½	3⅝ - 3¼	3⅞ - 3¼	[illegible] - 3⅛	[illegible]
Dutch Guilder	[illegible]	[illegible]	3¼ - 3⅛	3⅞ - 3¼	3½ - 3⅝	[illegible]
French Franc	3¼ - [illegible]	[illegible]	[illegible]	[illegible]	3½ - [illegible]	3⅝ - 3½
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible] - 5¼	[illegible]	5⅞ - [illegible]
Sterling	[illegible]	[illegible]	6⅝ - 6⅛	[illegible]	[illegible]	[illegible]
Swiss Franc	2⅛ - 1⅞	[illegible]	2⅛ - [illegible]	[illegible] - 1⅞	2 - 1⅞	2 - 1⅞
Canadian Dollar	[illegible]	3⅛ - 3	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	5¾ - 5⅝	[illegible]	[illegible]
Italian Lira	[illegible] - 7	[illegible]	[illegible]	[illegible] - 7⅝	[illegible]	[illegible] - 7¼
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	⅝ - [illegible]	[illegible] - ⅝
Asian $Sing	3⅛ - 3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.52	96.52	-	96.54	96.50	9,150	75,386
Sep	96.42	96.42	-	96.43	96.40	3,174	49,965
Dec	96.31	96.32	+0.01	96.33	96.29	2,946	29,828

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.67	96.68	+0.01	96.69	96.68	20406	223556
Sep	96.57	96.58	+0.01	96.59	96.56	9632	192944
Dec	96.36	96.39	+0.02	96.41	96.36	15239	191332
Mar	96.20	96.20	+0.02	96.21	96.17	9385	143713

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Apr	96.74	96.74	-0.01	96.74	96.74	37	5133
May	-	96.73	-0.01	-	-	0	4093
Jun	96.73	96.73	-0.01	96.73	96.73	20	905
Jul	-	96.72	-0.01	-	-	0	0

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 24		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.46	16.35	4.844	1.825	4850	5.448	19.29	487.4	411.1	21.92	4.504	1.780	3.951	2.870	352.3	2.496
Denmark	(DKr)	54.17	10	8.854	2.624	0.988	2627	2.951	10.44	264.0	222.7	11.87	2.440	0.964	2.140	1.554	190.8	1.353
France	(FFr)	51.17	11.29	10	2.963	1.116	2967	3.333	11.79	298.2	251.5	13.41	2.755	1.089	2.417	1.756	215.5	1.528
Germany	(DM)	20.64	3.811	3.374	1	0.377	1001	1.125	3.980	100.6	84.86	4.524	0.930	0.368	0.816	0.592	72.73	0.516
Ireland	(I£)	54.80	10.12	8.958	2.655	1	2658	2.985	10.57	267.1	225.3	12.01	2.468	0.976	2.165	1.573	193.1	1.368
Italy	(L)	2.062	0.381	0.337	0.100	0.038	100.	0.112	0.398	10.05	9.477	0.452	0.093	0.037	0.081	0.059	7.265	0.052
Netherlands	(Fl)	19.36	3.389	3.001	0.889	0.335	890.2	1	3.539	89.48	75.46	4.023	0.827	0.327	0.725	0.527	64.67	0.458
Norway	(NKr)	51.87	9.575	8.478	2.512	0.946	2515	2.825	10	252.8	213.2	11.37	2.336	0.923	2.049	1.488	182.7	1.295
Portugal	(Es)	20.51	3.787	3.354	0.994	0.374	994.9	1.118	3.955	100.	84.33	4.496	0.924	0.365	0.810	0.588	72.28	0.512
Spain	(Pta)	24.33	4.491	3.977	1.178	0.444	1180	1.325	4.690	118.6	100.	5.331	1.096	0.433	0.961	0.698	85.71	0.608
Sweden	(SKr)	45.63	8.424	7.459	2.210	0.833	2213	2.486	8.796	222.4	187.0	10	2.055	0.812	1.803	1.310	160.8	1.140
Switzerland	(SFr)	22.20	4.098	3.629	1.075	0.405	1077	1.209	4.281	108.2	91.26	4.866	1	0.395	0.877	0.637	78.22	0.555
UK	(£)	56.17	10.37	9.182	2.721	1.025	2724	3.060	10.83	273.8	230.9	12.31	2.530	1	2.219	1.612	197.9	1.403
Canada	(C$)	25.31	4.673	4.138	1.226	0.462	1228	1.379	4.881	123.4	104.1	5.548	1.140	0.451	1	0.726	89.10	0.632
US	($)	34.84	6.433	5.696	1.688	0.636	1690	1.898	6.718	169.9	143.2	7.636	1.569	0.620	1.377	1	122.8	0.870
Japan	(Y)	28.38	5.240	4.640	1.375	0.518	1376	1.546	5.472	138.4	116.7	6.220	1.278	0.505	1.121	0.815	100.	0.709
Ecu		40.04	7.391	6.545	1.939	0.731	1942	2.181	7.716	195.2	164.6	8.774	1.803	0.713	1.582	1.149	141.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5958	0.5951	-0.0015	0.5970	0.5939	23,361	59,891
Sep	0.5986	0.5987	-0.0017	0.5987	0.5986	24	2,514
Dec	-	0.6020	-0.0024	-	-	2	135

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6913	0.6905	-0.0016	0.6927	0.6885	18,197	37,704
Sep	0.6970	0.6968	-0.0026	0.6968	0.6968	43	2,070
Dec	-	0.7052	-0.0014	-	0.7050	1	259

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8237	0.8236	-0.0001	0.8278	[illegible]	[illegible]	[illegible]
Sep	0.8380	0.8350	+0.002	0.8380	[illegible]	[illegible]	[illegible]
Dec	-	0.8463	-	-	[illegible]	[illegible]	[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6020	1.6072	+0.0048	1.6110	[illegible]	[illegible]	[illegible]
Sep	1.5982	1.6050	+0.0050	1.6050	[illegible]	[illegible]	[illegible]
Dec	-	1.6030	+0.0054	1.6030	[illegible]	[illegible]	[illegible]

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

Robusta coffee futures fall 7.4%

MARKETS REPORT

By Alison Maitland, Kenneth Gooding and Robert Corzine

Robusta coffee futures fell 7.4 per cent in London after prices opened below a key chart point, sparking widespread selling by traders, funds and producers.

The May second position closed $123 down at $1,540 in sizeable volume. New York, which has risen faster this year and has already fallen significantly from its March 5 peak, was off by just under 1 per cent in afternoon trading.

Mr Lawrence Eagles, analyst with brokers GNI, said the fundamental reason behind the decline in prices this month was the expectation of lower second-quarter consumption coupled with domestic stockpiling.

The London market has dropped nearly 16 per cent since its March 11 peak of $1,825. "This is confirmation that the bull market rally in robusta has ended for the time being," said Mr Eagles.

Oil weakened as plentiful supplies of physical oil in northern Europe continued to exert downward pressure. Brent Blend for May delivery, the international benchmark, was quoted at around $19.75 in late trading on London's International Petroleum Exchange, 24 cents below Friday's close.

The markets shrugged off news from Nigeria that the local subsidiary of Royal Dutch/Shell, the Anglo-Dutch oil group, had shut in 100,000 barrels a day of production in the western part of Rivers state because irate local residents had occupied six production stations and detained 127 workers. Oil exports from Nigeria have not been reduced, said Shell.

Gold fell below $350 a troy ounce in London but quickly rebounded. Traders said the market was too nervous to try a break in either direction ahead of the expiry of European over-the-counter precious metals options today. Gold's price was "fixed" in London yesterday afternoon at $350.20 an ounce, $2.80 below Friday afternoon's fix.

One Zurich trader suggested the price would hover near that level until the options expired – and was then likely to drift to a lower range of $345 to $347 an ounce.

Opinions differed on whether an increase in US interest rates – widely expected today – would be bullish or bearish for gold. The bulls said a rise would hit the stock market and put upward pressure on gold prices; the bears suggested higher rates would dampen inflationary pressures and exert downward pressure on gold.

Pepper exchange goes global

Cochin's pepper futures market currently has no dealing room. Traders gather in the front corridor of the India Pepper and Spice Trade Association headquarters. Its three-storey building sides a small lane in the south Indian port's historic Jewtown, one lined with antique shops lazy with browsing tourists and suffused with the scent of turmeric, ginger and pepper from street-side warehouses.

A chorus of yells occasionally bursts from the corridor, where a dozen traders in skirt-like *dhotis* and flip-flops huddle outside the brokers' spartan offices.

At one end of the corridor, a lone computer screen displays the latest trading prices of the exchange's three-month pepper contracts. It is among the 40-year-old exchange's few technological concessions – unlike the wooden box beneath the computer screen, where pink trade slips must be stuffed by hand into a small slot.

But change is nigh. In an empty, cool-grey and air conditioned room upstairs, 23 trim open-plan booths line a pristine new dealing room. At the back, a computer room is set up for the delivery of two servers and six workstations. Delivery is due any week now, says Mr P. Sethuram, secretary of the pepper and spice association.

Then Cochin will be set to go global. By April, says Mr Sethuram, it will become India's first international commodities exchange.

Cochin's elevation to international status has been four years in the making. In 1993 – during a slump in pepper prices – the five producer nations comprising the International Pepper Community (India, Brazil, Malaysia, Indonesia and Thailand) decided to examine ways of offering a global hedging mechanism for pepper, the world's most traded spice.

A study was commissioned and last autumn Cochin, which has offered futures contracts for local farmers and exporters since 1957, was permitted to go global. "It would have proved awkward to start an exchange somewhere else in the world when one already exists," explains Mr Sethuram.

India produces about half the world's annual 180,000 tonnes of pepper. It exported 35,636 tonnes in the 1994-95 financial year, the last for which complete records are available, worth $62m to India's export earnings. This year's good harvest promises exports of up to 38,000 tonnes. Prices are also firm, with May delivery contracts hovering last month at Rs11,400 a tonne. Last year Cochin turned over around Rs10bn ($290m).

The buyers for pepper, which accounts for about a third of the world's $2bn a year spice trade, are mostly food processors, meat packers and condiment makers.

The exchange offers eight three-month contracts a year, two or three listed simultaneously and each for 2.5m tonnes of pepper. This format has been agreed by the International Pepper Community (IPC) as the basis for the global exchange. Only about 2 per cent of trades are currently settled by physical delivery.

Mr Sethuram says internationalisation will make only a gradual difference. "I don't expect we'll see more than 10 or a dozen new members in the early days," he says. Most big India pepper-buyers – companies such as McCormacks of the US, Burns Philp of Australia and Man Production of the Netherlands – already have agents in Cochin.

"They're all familiar with this market, they'll be comfortable with us," he says. To date the exchange has 160 members and 32 brokers, of whom only about 18 are active dealers.

Mr Sethuram expects a 50 per cent rise in turnover in the first six months. "In the next three years, once it picks up and confidence is established, it will be seen as a market of integrity, then I think we'll see three to four times the present volume."

Cochin will be linked with a trading floor in Kuala Lumpur that will handle much of the Indo-Chinese pepper trading and with which Cochin will have a mutual offset arrangement. The IPC is setting up designated warehouses in each of its members countries and in Singapore.

The first phase of Cochin's upgrade will cost Rs650,000, mainly the price of new computer equipment, and has been self-financed. "We have appointed the dealing room at first on rather a modest scale," Mr Sethuram says. "The exchange will provide only the shell, the rest – telephones and computer screens – the brokers will have to provide themselves."

Phase two, which envisages on-screen trading, is expected to take three or more years and would require funding from donor agencies. And eventually the exchange may have to move out of its three-storey building in Cochin's Fort district, where no building is taller than the coconut palms.

Such success might gently revive Cochin's lost, but illustrious, pre-eminence as a spice trading centre, but decamping from Jewtown would also lose it the unique charm of being the world's only futures market as temptingly aromatic as the substance it trades.

Mark Nicholson

Mark Nicholson

Traders gather outside Cochin's pepper futures market

COMMODITIES NEWS DIGEST

Zaire rebels offer gold concessions

Zaire rebels are already offering gold mining concessions in parts of the country they control to foreign companies, an investment analyst said yesterday. Most of the country's gold mines, which are in the east of the country, were seized in January by rebel leader Mr Laurent Kabila's Alliance of Democratic Forces.

The rebels have also taken over the personal gold mine of Mr Mobutu Sese Seko, the Zaire leader, and said earlier this month the gold mines they hold had resumed production and could help pay for their war effort.

Mr John Klemmow, a Johannesburg-based investment analyst, said the rebels were now offering gold prospecting concessions. "The rebels are already offering [gold] concessions and they only liberated these places a week or two ago – you can see it is pretty open for business already," he said.

The rebels say their forces are 300km from Zaire's second city, Lubumbashi, the capital of the southern mining province of Shaba. They have taken over almost a fifth of the sprawling central African country – which mining analysts say is one of the richest mineral areas in the world – since they took up arms in October.

The rebels have said that Lubumbashi, the centre of Zaire's copper and cobalt mining industry and the base of the giant state mining company Gecamines, will be their next target. *Reuter, Johannesburg*

China aluminium data doubted

A campaign to persuade the International Primary Aluminium Institute to reverse its recent decision to include data from China in its monthly statistical reports has been started by Mr Angus MacMillan, research manager at Billiton Metals, a subsidiary of Gencor, the South African mining and metals group.

"You have contaminated a sound data series, relied upon for consistency by many people, by including data the veracity of which is questioned," Mr MacMillan suggests in an open letter to the institute, an organisation funded by international aluminium producers.

The institute included statistics from China and Tajikistan for the first time this year, saying its data now covered about 95 per cent of global aluminium production. However, Mr MacMillan, who claims the support of several other metal markets commentators, says he does not believe the Chinese are in a position to collect or collate consistent and timely statistics because so much of the country's aluminium production comes from very many small plants.

Mr Alan Payne, director general, said the institute was giving Mr MacMillan's letter careful consideration. The institute's main concern was to improve the statistics it provided. *Kenneth Gooding*

Queensland cyclone assessed

Farmers along the north Queensland coast, one of Australia's key agricultural regions, are assessing the damage caused by Cyclone Justin, which swept inland on Sunday, killing two people and causing widespread flooding. About 20 per cent of Australia's A$1.3bn sugar crop – grown predominantly in Queensland – was estimated to be in the cyclone's path. *Nikki Tait, Sydney*

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1626.5-7.5	1659-60
Previous	1623-24	1655-56
High/low		1574/1554
AM Official	1631-1.5	1663.5-4.0
Kerb close		1556-7
Open int.	266,222	
Total daily turnover	62,322	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1515-25	1545-50
Previous	1530-35	1550-53
High/low		1550
AM Official	1520-30	1550-55
Kerb close		1545-50
Open int.	5,925	
Total daily turnover	463	

■ LEAD ($ per tonne)

Close	683.5-4.5	683-4
Previous	692-93	692-693
High/low		692/679
AM Official	683-5.0	683-4
Kerb close		678-8.5
Open int.	37,921	
Total daily turnover	4,232	

■ NICKEL ($ per tonne)

Close	7745-55	7860-65
Previous	7835-45	7945-55
High/low	7800/7790	7950/7800
AM Official	7800-5	7910-15
Kerb close		7815-20
Open int.	50,183	
Total daily turnover	8,305	

■ TIN ($ per tonne)

Close	5815-25	5865-70
Previous	5880-90	5925-30
High/low	5880	5940/5870
AM Official	5870-80	5895-900
Kerb close		5860-70
Open int.	18,144	
Total daily turnover	2,358	

■ ZINC, special high grade ($ per tonne)

Close	1272-3	1295.5-5.5
Previous	1278-79	1301-02
High/low		1302/1292
AM Official	1270-1	1293-4
Kerb close		1294-5
Open int.	85,748	
Total daily turnover	13,013	

■ COPPER, grade A ($ per tonne)

Close	2420-23	2365-6
Previous	2417-20	2363-64
High/low	2430	2388/2362
AM Official	2429.5-30.5	2370-1
Kerb close		2366-7
Open int.	137,191	
Total daily turnover	30,735	

■ LME AM Official £/$ rate: 1.6105

LME Closing £/$ rate: 1.6097

Spot: 1.6170 3 mths: 1.6147 6 mths: 1.6122 9 mths: 1.6094

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	117.40	-0.85	118.00	117.00	864	3,529
Apr	112.20	-1.50	113.10	112.20	386	4,338
May	110.95	-1.15	112.20	110.85	8,148	23,472
Jun	109.05	-1.05	110.40	109.50	77	1,068
Jul	107.60	-0.75	108.20	107.60	1,977	8,869
Aug	106.00	-0.95	106.55	106.25	154	688
Total					12,130	67,127

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	350.25-350.75		
Opening	351.50-351.90		
Morning fix	350.65	217.471	512.124
Afternoon fix	350.20	217.421	510.682
Day's High	351.70-352.00		
Day's Low	349.00-349.30		
Previous close	351.50-352.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.43 6 months 4.30

2 months ....4.33 12 months 4.23

3 months 4.32

Silver Fix	p/troy oz.	US cts equiv.
Spot	318.00	512.85
3 months	323.00	519.40
6 months	328.00	526.10
1 year	337.00	539.65

Gold Coins	$ price	£ equiv.
Krugerrand	n/a	n/a
Maple Leaf	n/a	n/a
New Sovereign	n/a	n/a

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	350.4	-2.6	-	-	5	3
Apr	350.9	-2.6	353.3	349.4	35,833	43,672
Jun	353.0	-2.9	356.0	351.8	1,021	43,215
Aug	355.3	-3.0	357.0	354.7	418	10,786
Oct	357.8	-3.0	358.5	357.5	387	5,842
Dec	360.4	-3.0	361.2	359.5	2,409	21,634
Total					60,228	167,384

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	378.5	-3.8	380.0	377.5	2,312	12,428
Jul	380.8	-3.6	381.5	379.5	877	4,895
Oct	383.2	-3.6	383.5	383.5	67	1,679
Jan	385.4	-3.6	-	382.0	12	1,137
Total					3,256	20,138

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Mar	147.25	-5.05	149.25	149.25	8	16
Jun	149.25	-5.05	151.00	149.25	943	8,972
Sep	150.50	-5.05	-	-	58	835
Dec	151.50	-5.05	-	153.50	-	190
Total					1,010	16,003

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Mar	517.1	+3.3	518.0	512.0	115	294
May	519.7	+3.2	521.0	512.0	17,681	54,602
Jul	524.9	+3.2	526.5	517.0	782	18,010
Sep	529.9	+3.2	529.5	523.0	56	3,310
Dec	537.4	+3.2	538.0	530.0	66	5,173
Jan	540.3	+3.2	553.0	553.0	2	13
Total					18,722	90,321

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	21.21	-0.30	21.59	21.10	40,982	95,493
Jun	21.16	-0.22	21.45	21.13	11,043	57,318
Jul	21.08	-0.10	21.21	21.07	3,315	27,340
Aug	20.95	-0.15	21.06	20.92	2,755	19,358
Sep	20.90	-0.09	20.99	20.88	1,203	13,438
Oct	20.79	-0.11	20.87	20.79	581	15,405
Total					79,798	392,260

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	19.74	-0.25	19.92	19.68	21,323	67,268
Jun	19.76	-0.25	19.92	19.70	6,712	32,094
Jul	19.74	-0.11	19.88	19.70	2,060	13,947
Aug	19.71	-0.08	19.83	19.70	1,366	6,866
Sep	19.66	-0.06	19.74	19.68	485	6,349
Oct	19.65	-0.04	19.73	19.63	736	4,226
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	55.85	-0.13	56.05	55.15	11,895	23,712
May	55.50	-0.35	56.00	55.00	8,973	28,402
Jun	55.70	-0.35	56.20	55.25	1,645	13,678
Jul	56.10	-0.30	56.25	56.00	727	13,185
Aug	56.50	-0.50	56.85	56.50	570	0,105
Sep	57.30	-0.35	57.50	57.30	358	5,165
Total					22,785	122,510

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	170.75	-	171.75	169.25	6,984	25,865
May	171.73	-1.00	173.50	171.25	4,265	8,935
Jun	173.50	-1.25	174.25	173.00	1,058	10,367
Jul	175.00	-1.00	176.75	175.00	344	4,582
Aug	177.00	-0.50	177.50	176.75	293	1,988
Sep	178.75	-0.25	178.75	178.73	95	1,496
Total					12,791	65,049

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	1.790	-0.050	1.835	1.770	27,280	16,032
May	1.845	-0.031	1.885	1.825	9,830	30,731
Jun	1.900	-0.035	1.935	1.880	2,509	14,625
Jul	1.925	-0.030	1.960	1.910	1,026	11,940
Aug	1.940	-0.050	1.970	1.925	866	9,552
Sep	1.945	-0.060	1.980	1.940	801	9,858
Total					46,834	173,355

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	66.50	-1.14	67.40	66.50	14,316	20,634
May	66.30	-0.89	67.25	66.30	8,909	38,905
Jun	65.50	-0.57	66.00	65.40	2,827	18,920
Jul	64.30	-0.40	64.60	64.20	2,646	9,438
Aug	62.85	-0.50	63.00	62.85	1,662	5,407
Sep	61.30	-0.25	61.40	61.20	1,217	2,536
Total					34,015	100,838

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	102.20	+0.45	103.00	101.30	257	3,073
Jul	104.40	+0.40	105.50	103.50	292	1,201
Sep	96.00	+0.75	95.00	95.00	-	35
Nov	98.00	+0.75	98.25	97.00	160	2,104
Jan	100.00	+0.75	100.00	99.00	33	520
Mar	102.00	+0.73	102.00	102.00	10	188
Total					752	7,121

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

May	386.50	-3.5	390.00	385.00	5,052	27,530
Jul	386.50	-2	383.50	378.50	10,837	41,297
Sep	382.50	-2.5	383.00	381.00	442	5,257
Dec	390.25	-2.5	392.00	389.00	452	5,795
Mar	391.50	-3.5	391.50	391.00	3	83
Jul	359.00	+1	-	-	1	180
Total					17,587	79,865

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	299.00	-1.25	299.73	295.75	28,384	154,595
Jul	300.00	-1	300.50	397.25	15,374	110,461
Sep	294.25	-0.5	294.75	290.75	1,587	17,903
Dec	232.50	-0.25	292.75	288.50	7,800	83,888
Mar	296.50	-0.25	296.50	293.00	198	8,127
May	299.00	-0.5	299.00	295.00	55	331
Total					60,825	377,783

■ BARLEY LIFFE (£ per tonne)

May	94.00	-	94.00	94.00	0	142
Sep	93.00	-	93.00	93.00	3	28
Nov	95.00	-	-	-	-	479
Jan	97.00	-	-	-	-	38
Mar	98.00	-	-	-	-	-
May	-	-	-	-	-	0
Total					15	686

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	831.75	-10.75	840.25	827.50	35,853	79,671
Jul	832.75	-8.73	840.50	828.50	15,522	58,707
Aug	815.50	-9	820.00	811.50	1,866	8,240
Sep	752.25	-8.75	758.00	752.00	640	5,313
Nov	705.25	-7.5	710.50	705.00	6,143	33,751
Jan	711.00	-7	715.00	711.00	73	1,613
Total					69,580	188,283

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	23.85	-0.55	24.40	23.60	8,259	45,861
Jul	24.25	-0.5	24.75	24.20	3,440	28,316
Aug	24.49	-0.44	24.90	24.45	985	5,307
Sep	24.65	-0.48	24.95	24.60	323	3,364
Oct	24.78	-0.5	24.90	24.75	128	3,583
Dec	25.00	-0.45	25.42	24.90	851	11,520
Total					15,186	98,231

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	274.4	-3	277.2	272.2	11,158	47,875
Jul	269.7	-3.4	272.5	267.8	3,923	27,666
Aug	260.8	-4.7	263.5	260.0	861	6,710
Sep	244.0	-4	246.0	244.0	198	5,987
Oct	225.0	-2.5	225.2	224.0	123	4,395
Dec	220.6	-2.4	221.5	220.0	1,049	9,383
Total					19,780	184,346

■ POTATOES LIFFE (£/tonne)

Apr	40.0	-7.0	46.0	38.0	117	606
May	48.0	-6.0	53.0	47.0	32	357
Jun	67.0	-	-	-	-	-
Nov	85.0	-	-	-	-	2
Mar	96.0	-	-	-	-	-
Apr	108.0	-	105.1	105.1	10	724
Total					159	1,798

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Apr	1590	-60	1625	1588	84	1,124
May	1570	-35	1595	1566	54	622
Jul	1320	-20	1340	1325	10	722
Oct	1440	-	1450	1440	6	310
Jan	1450	-	1455	1450	-	47
Apr	1450	-	-	-	-	-
Total					171	3,261

	Close	Prev
BFI	1526	1515

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	995	-14	991	991	124	316
May	1005	-13	1014	998	1,797	31,458
Jul	1016	-12	1025	1008	1,022	15,543
Sep	1026	-9	1024	1019	143	12,103
Dec	1024	-10	1026	1020	454	25,818
Mar	1040	-10	1046	1037	126	22,970
Total					3,681	134,914

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1428	-22	1445	1425	5,836	32,268
Jul	1460	-21	1475	1458	1,577	21,549
Sep	1486	-16	1497	1487	53	11,405
Dec	1510	-20	1519	1507	195	8,793
Mar	1533	-20	1544	1534	254	18,580
May	1553	-20	1555	1555	121	6,788
Total					8,323	100,384

■ COCOA (ICCO) (SDR's/tonne)

Mar 21	Price	Prev. day
Daily	1135.92	1136.32

■ COFFEE LIFFE ($/tonne)

Mar	1541	-122	1610	1539	327	1,100
May	1541	-122	1640	1535	9,557	24,749
Jul	1560	-97	1633	1550	3,520	11,381
Sep	1567	-84	1625	1565	1,222	8,576
Nov	1590	-79	1604	1554	67	2,659
Jan	1530	-79	1600	1595	-	731
Total					14,693	47,408

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	162.90	-2.85	164.90	158.65	5,544	18,265
Jul	153.80	-1.75	155.25	151.00	1,897	7,998
Sep	145.35	-1.00	146.25	142.25	770	5,389
Dec	134.60	-0.40	135.25	131.80	393	3,495
Mar	127.00	+1.55	127.00	126.00	114	1,013
May	123.05	-0.50	125.00	124.55	15	216
Total					8,741	36,482

■ COFFEE (ICO) (US cents/pound)

Mar 21		Prev. day
Comp. daily	128.66	130.11
15 day average	138.51	138.89

■ WHITE SUGAR LIFFE ($/tonne)

May	306.7	+0.5	307.0	305.5	781	14,631
Aug	306.3	+1.0	306.5	305.0	548	4,921
Oct	302.6	+1.4	302.7	302.7	2	3,337
Dec	301.7	+1.5	301.7	301.7	-	935
Mar	301.7	+1.5	302.2	302.2	21	510
May	303.8	+4.9	303.7	302.9	-	154
Total					1,321	24,488

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

May	10.92	+0.08	10.94	10.83	5,128	61,380
Jul	10.67	+0.09	10.68	10.60	912	35,793
Oct	10.59	+0.08	10.60	10.53	481	25,770
Mar	10.59	+0.08	10.60	10.54	859	13,421
May	10.57	+0.06	10.57	10.54	178	2,734
Jul	10.58	+0.98	10.55	10.54	84	1,415
Total					7,395	140,855

■ COTTON NYCE (50,000lbs; cents/lbs)

May	73.98	+0.63	74.09	73.35	13,128	32,363
Jul	75.47	+0.61	75.57	74.95	4,853	16,053
Oct	76.50	+0.50	76.50	76.05	323	1,572
Dec	76.70	+0.50	76.80	76.20	4,008	21,271
Mar	77.60	+0.42	77.30	77.30	1,035	1,988
May	78.20	+0.43	77.85	77.50	153	525
Total					23,823	74,442

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	84.70	+1.00	85.00	82.60	903	14,700
Jul	86.55	+0.55	86.70	85.00	172	5,510
Sep	88.05	+0.45	88.50	86.80	58	3,717
Nov	89.85	+0.05	90.50	89.70	13	1,406
Jan	90.85	-0.45	92.00	90.50	25	658
Mar	92.25	-0.80	94.00	93.00	16	370
Total					1,195	28,397

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	68.625	+0.475	69.200	68.350	8,619	32,297
Jun	64.025	+0.250	64.575	63.925	5,751	27,810
Aug	63.775	+0.375	64.050	63.500	1,754	21,881
Oct	67.075	+0.225	67.500	66.850	1,025	15,138
Dec	69.300	+0.150	69.550	69.150	369	7,281
Feb	70.450	-	70.650	70.350	107	2,822
Total					17,822	107,529

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Apr	74.275	+2.000	74.275	73.300	4,199	9,923
Jun	82.150	+2.000	82.150	81.000	4,211	12,585
Jul	80.000	+1.200	80.800	79.200	1,491	3,233
Aug	76.525	+1.625	76.700	75.950	680	2,262
Oct	70.575	+1.250	70.900	69.800	512	1,666
Dec	68.250	+1.075	68.650	67.675	526	1,303
Total					11,662	31,606

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Mar	78.800	+0.500	80.300	80.300	27	27
May	78.850	-0.450	81.850	78.700	2,224	4,007
Jul	78.150	-0.400	80.475	77.900	859	1,658
Aug	75.175	-0.475	76.850	75.300	452	449
Feb	69.200	-1.050	71.850	70.750	12	88
Total					3,574	6,228

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1600	42	96	5	34
1650	13	68	25	54
1700	2	48	64	81
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
2250	182	141	2	59
2350	87	89	5	104
2450	22	52	40	186
■ COFFEE LIFFE	May	Jul	May	Jul
1650	30	103	139	193
1700	20	88	179	228
1750	14	75	223	265
■ COCOA LIFFE	May	Jul	May	Jul
975	42	74	12	33
1000	29	59	24	43
1025	19	47	39	58
■ BRENT CRUDE IPE	May	Jun	May	Jun
2000	36	68	-	-
2050	21	55	-	-
2100	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$18.29-8.35w	-0.375
Brent Blend (dated)	$18.91-8.93	-0.145
Brent Blend (May)	$19.76-9.78	-0.29
W.T.I.	$21.25-1.29w	-0.33

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$217-219	-2
Gas Oil	$172-174	
Heavy Fuel Oil	$82-84	
Naphtha	$192-195	-3
Jet fuel	$192-195	
Diesel	$179-181	

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.50-9.60	

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Apr)	9.550	+0.10

■ OTHER

Gold (per troy oz)♣	$350.50	-1.25
Silver (per troy oz)♣	515.00c	
Platinum (per troy oz.)	$375.25	-2.75
Palladium (per troy oz.)	$148.00	-0.50
Copper	118.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.31r	-0.17
Tin (New York)	275.50	
Cattle (live weight)	95.52p	-3.10*
Sheep (live weight)	147.16p	-4.33*
Pigs (live weight)†	78.85p	-5.94*
Lon. day sugar (raw)	$271.30	-0.40
Lon. day sugar (wte)	$309.00	+0.20
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Apr)♥	80.25p	
Rubber (May)♥	80.25p	
Rubber (KL RSS No1)	301.0x	-0.50
Coconut Oil (Phil)§	735.0y	
Palm Oil (Malay.)§	560.0	
Copra (Phil)§	$490.0y	
Soyabeans (US)	232.0	
Cotton Outlook'A' Index	80.10	
Wooltops (64s Super)	429p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w May y Apr/May♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 275 head of pigs sold.

Tea

There was strong, active demand for tea, The Tea Brokers' Association reports. Landed brightest Burundi and Kenya teas gained 5 pence to 10 pence a kg and sometimes more. All others advanced 2 pence to 6 pence a kg. Offshore brighter types met good enquiry at dearer rates, but plainer types were irregular. Quotations for this sale: Landed best available 195p; good 162p; good medium 140p, medium 133p, low medium NQ. The highest price realised this week was 195 pence for a Burundi PD.

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 24	Mar 21	month ago	year ago
1973.2	1977.0	1982.6	2136.8

■ CRB Futures (Base: 1967 = 100)

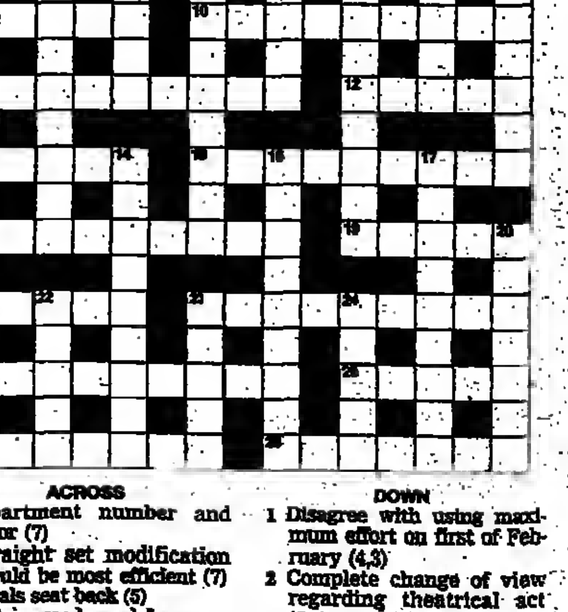
Mar 21	Mar 20	month ago	year ago
246.40	246.40		

■ GSCI Spot (Base: 1970 = 100)

Mar 21	Mar 20	month ago	year ago
194.19	196.22	192.45	205.32

CROSSWORD

No.9,333 Set by HIGHLANDER



ACROSS

1 Apartment number and floor (7)
5 Straight set modification would be most efficient (7)
9 Steals seat back (5)
10 Put in good word for counsel (9)
11 One the son arranged to win (2,3,4)
12 Interfere in speech award (5)
13 Hit front of the mound (5)
15 Made cross Rita tried out (9)
18 Boycott beams behind players (9)
19 Ardent lover offers more exotic love (5)
21 Not settled yet in old annexe (5)
23 It's very little to give up, said one doing the cooking (9)
25 A country in SE Asia (old name) has one, and not Anatolia (4,5)
26 Saw a cricket team take title briefly (5)
27 Infection starts to turn everyone brown in front of us (7)
28 Snares set round an ancient Greek (7)

DOWN

1 Disagree with using maximum effort on first of February (4,3)
2 Complete change of view regarding theatrical act (5,4)
3 Eat a steak – the flavour is central (5)
4 Drugs carton is distributed round Cuba (9)
5 In Germany I can be found in north-eastern corner (5)
6 Convert two graduates within one's own college (4,5)
7 A quarter needing repair? Correct (5)
8 Notorious barber went in front and walked like a child (7)
14 Cultivate chap's eponymous meal (9)
16 Therapeutic breaks depend on French priests (4,5)
17 Tempo pianist changed to include male drummer (9)
18 Cheerful lad sent round bend by social worker (7)
20 Use too many people on top of the island (7)
22 Do it out of order after I booh (5)
23 Short of a letter in America (5)
24 One man and his beginnings on a beach in Nebraska (5)

Solution to Saturday's prize puzzle on Saturday April 5.
Solution to yesterday's prize puzzle on Monday April 7.

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

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Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Fidelity Funds - Contd.

Fleming Group (u)

Mercury Asset Management - Contd.

Midland Intl Circuit Fund SICAV(u)

ACM Global Investment - Contd.

Credit Commercial de France

Daiwa Japan Gem Fund

Daiwa Japan Small Equity Fd (u)

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation

CMI Ins Co Ltd/Clerical Med Gen Life - Contd.

Eagle Star Intl Life

LUXEMBOURG (REGULATED)(**)

ACM Global Investment

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International - Contd.

AXA Asset Management

Citibank Global Asset Mgmt (Asia) Ltd

GT Chile Growth Holdings Limited

ImPac Asia Pacific Funds Limited

Lippo Asia Ltd

Optima Fund Management

Sintra Fund Ltd

Sloane Robinson Investment Mngmt Ltd

[illegible]

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

OTHER OFFSHORE FUNDS

[illegible]

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	‡	442	-3	553	407½	4,582	6.7	13.4
Bulmer (HP)	[illegible]	613	-7½	626	477	323.7	[illegible]	18.2
Burn St Dist	[illegible]	[illegible]	—	[illegible]	[illegible]	37.7	6.7	67.5
Glenmorangie A	[illegible]	1010	—	1025	615	137.4	1.5	27.5
B	[illegible]	1125	—	1140	[illegible]	[illegible]	0.7	61.2
Grand Met	[illegible]	[illegible]	-12	[illegible]	411	[illegible]	4.2	15.4
Guinness	[illegible]	[illegible]	-11½	[illegible]	424	9,399	4.2	13.8
Highland	[illegible]	[illegible]	+½	[illegible]	120	401.5	3.0	16.7
5¾pc Cnv Bds		[illegible]	—	101½	94¼	—	—	—
Kirin Y		[illegible]	-22	[illegible]	[illegible]	5,249	[illegible]	19.6
Matthew Clark	[illegible]	[illegible]	+5	[illegible]	[illegible]	[illegible]	9.4	15.5
[illegible]	[illegible]	94	—	101	81½	10.2	6.1	12.7
Seagram C$		£24¼	[illegible]	[illegible]	[illegible]	8,812	1.7	—

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INSURANCE - Cont.

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£24½	—	*£31	£20¼	1,973	3.1	♦
Barlow	&	£9	-⅛	£9	£5	1,422	2.1	14.3
Gold Flds Prop R	†	134½	-¾	171½	130	14.3	6.5	10.7
SA Brews		£19	-⅛	£24	£13	5,848	1.8	♦
Standard Bank		£28	-¼	£31	£21	3,114	1.4	22.7
Tiger Oats		1085	-15	1150	770	1,802	1.7	20.6
Tongaat-Hulett		783½	-4	1125	678½	723.0	2.4	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and dividend covers are published on Monday

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAV's) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT7738. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

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Company Focus (FT news) £8.45.

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FT Cityline

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Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Equities retreat for sixth straight session

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

London's equity market was given another pasting yesterday, absorbing its sixth consecutive decline as fund managers and marketmakers ran for cover ahead of today's meeting of the US Federal Reserve's Open Market Committee, which decides monetary policy.

The consensus around the City's dealing rooms favoured a rate rise of 25 basis points. Some of the market's doomsters feared such a move might, if followed by further increases, trigger a repeat of the February 1994 retreat by global bond and equity markets.

Marketmakers said a rise in excess of 25 basis points would cause problems for Wall Street while no change would be seen as merely a postponement of the bad news.

The FTSE 100 ended the session exactly 40 points off at 4,214.8, extending the fall over the six trading days to 208.5, or 4.7 per cent. The FTSE 250 dropped a further 28.1, a decline of 170.9 or 3.6 per cent over the six days, while the SmallCap index, down 8.6 yesterday at 2,312.1, was 53.1 or 2.2 per cent lower over the same period.

Dealers said many fund managers were attempting to lock in profits and secure the value of their portfolios as the quarter and the financial year drew to a close.

Turnover yesterday was up to recent levels, reaching 805.9m by the 6pm cut-off point.

Equities drew no real comfort from the gilts market which, along with international bonds, staged a useful rally during the afternoon, shifting into positive ground towards the close.

Earlier, gilts had deteriorated despite excellent news on the domestic economy. Fourth quarter gross domestic product was revised to show a 2.6 per cent increase for 1996 while an £873m current account surplus left the 1996 deficit at a mere £14m. The gilts market is now preparing for Wednesday's auction of £2.5bn worth of 10-year gilts.

With gilts labouring at the start of the day, equities were unable to build on a positive opening which had seen the FTSE 100 edge around 10 points higher.

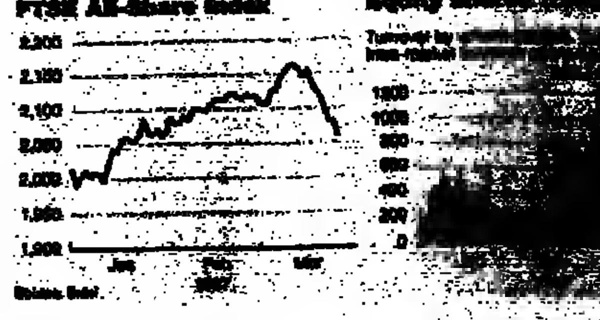
BAT, the tobacco group, built strongly on last Friday's rally, chased higher by a number of brokers who said the shares had been oversold.

Many of the financial stocks remained under intense pressure, although traders expect a short term bounce in the sector after the recent underperformance.

Mr David Schwartz, stock market historian and author of *Bull Market Buy Signals*, said there had been 40 occasions since 1935 when the market fell six sessions in a row and by between 3.5 and 5 per cent. On two out of every three occasions these successive falls have occurred in a bear market, which he defines as a fall of 15 per cent or more.

"History says the odds are high that this is more than a temporary market correction," Mr Schwartz said, pointing out that the bigger the percentage fall during the six sessions, the higher the odds are on a bear market.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover [illegible]

Indices and ratios

FTSE 100	4214.8	-40.0	FT 30	2788.9	[illegible]
FTSE 250	4536.9	-28.1	FTSE Non-Fins p/e	[illegible]	[illegible]
FTSE 350	2086.0	-18.4	FTSE 100 Fut Jun	[illegible]	[illegible]
FTSE All-Share	2051.29	-17.31	10 yr Gilt yield	[illegible]	[illegible]
FTSE All-Share yield	3.70	3.67	Long gilt/equity yld ratio	[illegible]	[illegible]

Best performing sectors

1 Tobacco +2.6
2 Support Services +0.5
3 Distributors +0.5
4 Health Care +0.3
5 Textiles & Apparel -0.1

Worst performing sectors

1 Insurance -2.4
2 Life Assurance -2.0
3 Alcoholic Beverages -1.9
4 Pharmaceuticals -1.5
5 Building & Cnstrn -1.4

BP back in pole position

By Steve Thompson and Joel Kibazo

BP regained top spot in the UK's market capitalisation league, projected upwards by further aggressive buying interest from both sides of the Atlantic. Institutions, particularly in New York, were said to impressed by a series of big presentations given by the company recently in the US. The shares moved up 3¼ to 703¼.

BP has vied with HSBC and Glaxo for first place in the market caps table for some time. Glaxo's occupation of the number one slot last week lasted only a few days.

Elsewhere in oils Lasmo moved up 4¼ to 248p, leaving it in second place in the FTSE 100 performance table, with investors still chasing the stock amid talk of further drilling success in Pakistan.

Shell Transport went into a sharp reverse, closing 24¼ lower at £10.56¼, hit by suggestions of switching into BP and by continuing concerns about its Nigerian operations. Shell said it was losing output of 100,000 barrels of crude oil a day after the shutdown of six of its flow stations because of a feud between two villages. Burmah Castrol gave a strong performance, climbing 22½ to £10.05p reflecting a stock shortage and talk of a broker buy recommendation.

Recommendations from several brokers powered tobacco and financial services giant BAT. The shares jumped 15 to 508p, making it the best performing FTSE 100 stock.

Schroders securities was among those said to be behind yesterday's strong advance. The broker was reported to have issued a new 670p-830p valuation on the stock and suggested that the group may be ring-fenced from US legal action and that the bulk of any settlement would be met by its insurers.

BZW, the group's broker, and Goldman Sachs were also said to favour the stock.

Turnover reached a hefty 14m. The stock was also actively dealt in the traded options sector where the equivalent of 1.3m was traded.

Shares in Stagecoach, the transport group which owns the problem-ridden South West Trains, came off the rails again yesterday, careering down another 29½ to 649½p, after bearish comments in the press.

Stagecoach shares have plummeted 105.5p or 14 per cent since March 11, as the institutions have reacted to a stream of worries about potential regulatory interference. Its South West Trains franchise has been beset by cancellations and delays because of a shortage of drivers. Stagecoach has been threatened with a £1m fine and the possible loss of the franchise if the services are not restored to an acceptable level.

The shares peaked at 801p in January of this year, but have subsequently fallen sharply. Mr Brian Souter, the company's executive chairman, acquired 10,000 Stagecoach shares yesterday on behalf of his wife, boosting their joint holdings to 36.5m shares.

Reports that broker SBC Warburg had turned neutral on the UK drinks industry weakened several of the leading issnes in the sector.

Bass surrendered 8½ to 800¼p, after trade of 2.1m.

Speculation that Bass is about to abandon its proposed brewing merger with Danish group Carlsberg-Tetley continued to do the rounds in the market.

Bass announced plans for the deal last August. However, the UK Department of Trade and Industry subsequently referred the proposal to the Monopolies and Mergers Commission.

Several brokers indicated they would upgrade Bass profit expectations should it decide to relinquish the deal.

Mr Philip Hawkins at Merrill Lynch said: "Although we believe Bass has yet to make a decision, we believe it will not hesitate to walk away from the deal should it perceive the undertakings to be too onerous. The overall effect on Bass will be minimal – only £20 to £30m – but the company will have benefited from having access to Carlsberg-Tetley's books and marketing plans for 12 months."

In the rest of the sector, Scottish & Newcastle eased 11 to 664¼p while Whitbread fell 11½ to 758¼p.

Hong Kong-linked banks performed exceptionally well, with HSBC London-registered stock up 17½ to £14.76p and the HK-registered 20¼ better at £14.27p. Standard Chartered moved up 13½ to 533½p.

But it was hard going for the rest of the banking sector, which has suffered more than the broader market recently amid concerns about rising interest rates and bond yields.

The battle for control of Scottish Amicable is expected to reach a climax this week. Abbey National, one of the three bidders for the mutual, along with Prudential and Australian Mutual Provident, and whose shares have been hit hard in recent weeks, settled a shade easier at 714½p. Prudential, regarded as favourite to take control of Scottish, retreated 6½ to 540p, ex-dividend.

Lloyds TSB, whose shares peaked at 534p on February 19, continued its precipitous fall, sliding 7 to 454p. The stock has fallen in a straight line since last Friday week, giving up 68½p or 1 per cent.

The two Scottish banks also came under fire, Royal Bank of Scotland slipping 12 to 515½p and Bank of Scotland 9 to 313½p.

Blue Circle Industries shares drifted back 14 to 401¼p after preliminary results a fraction below consensus forecasts and news of the acquisition of St Mary's Cement Corporation of Canada for £164m.

Sentiment in the building materials and construction areas of the market was also unsettled by worries about possible interest rate rises after the general election.

The spate of new issues continued apace, with four stocks making their market debuts yesterday, three on the main market and one on AIM. All went to premiums to their respective placing prices.

Diagonal, the IT consultancy, traded up to 316p, before settling at 310p, a 12 per cent premium to the 275p placing price; turnover in the shares reached a healthy 1.5m by midday.

Shares in Heal's, the furniture retailer, were placed at 175p but closed at 205½p in volume of 1.8m; while Helphire, the car hire and repair company, made a sparkling debut, the shares topping 130p at one point before finishing the session at 126¼p. Turnover was 2.2m shares.

Prestbury Leisure, floated on AIM and placed at 2p, touched 3p before closing at 2.75p, with 4.7m shares changing hands.

FT 30 INDEX

	Mar 24	Mar 21	Mar 20	Mar 19	Mar 13	Yr ago	*High	*Low
FT 30	2788.9	2822.7	2833.4	2868.7	2881.2	2755.8	2931.4	2666.8
Ord. div. yield	4.05	4.00	3.99	3.94	3.92	3.93	4.22	3.76
P/E ratio net	17.15	17.38	17.43	17.64	17.73	16.34	18.09	15.80
P/E ratio nil	16.94	17.14	17.22	17.42	17.51	16.03	17.87	15.71

FT 30 since compilation: high 2931.4 10/03/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2818.7	2817.4	2800.0	2791.8	2799.1	2799.0	2793.5	2794.4	2788.8	2823.0	2788.3

	Mar 24	Mar 21	Mar 20	Mar 19	Mar 18	Yr ago
SEAQ bargains	60,364	59,984	62,270	59,809	59,560	42,894
Equity turnover (£m)†	-	NA	3460.3	2597.3	2504.6	1586.3
Equity bargains†	-	NA	58,399	53,271	51,762	47,132
Shares traded (ml)†	-	NA	923.7	812.7	944.2	689.0

†Excluding intra-market and overseas turnover but including Crest turnover.

	Mar 24	Mar 21	Mar 20	Mar 19	Mar 18	Yr ago	*High	*Low
FTSE AIM	1110.2	1111.2	1109.1	1114.3	1123.8	987.2	1140.4	985.7

 *For 1996/97.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	332	Total Highs	36	Total contracts	43,120
Total Falls	1,052	Total Lows	87	Calls	17,194
Same	1,040			Puts	25,926

Mar 24 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4273.0	4236.0	-36.0	[illegible]	[illegible]	[illegible]	[illegible]
Sep		4260.0	[illegible]				

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4562.0	4553.0	-11.0	4562.0	[illegible]	[illegible]	[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*4215) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 7,717 Puts 13,554 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996/97 High	Low	Stock	Close price p	+/-	Net div	Div cov.	Grs yld	P/E net
§125	F.P.	20.7	149½	120½	†Azlack	120½		-	-	-	-
§100	F.P.	25.0	100	99	Aurora Inv Trust	100		-	-	-	-
§50	F.P.	21.8	64	42½	†Birmingham City	49½		-	-	-	-
*	F.P.	3.04	17½	13¼	†Cambridge Mineral	14	+¼	-	-	-	-
§-	F.P.	14.1	66	55	†Charlton Athletic	64½	+1½	-	-	-	-
§250	F.P.	66.7	335	292½	Core Group	298		-	-	-	-
§-	F.P.	-	335	302½	Diagonal	310		-	-	-	40.3
§200	F.P.	12.2	270	240	†Dobbies Garden	260		L4.5	2.2	2.2	18.4
§-	F.P	10.8	71½	71½	Dowdeswell	71½		L2.25	1.7	3.9	13.1
525	F.P.	2,430	570½	463½	Energy Group	468½	-2	W21.0	2.5	5.6	9.0
§180	F.P.	24.5	188½	178½	Glenard Cab Sys	188½		-	-	-	-
§175	F.P.	-	205½	198	Heal's	205½		-	3.1	-	15.0
§100	F.P.	-	130½	125	Helphire Group	126½		-	5.1	-	16.6
§28	F.P.	8.10	31½	28½	Howle	31½	+½	-	-	-	1.7
§195	F.P.	111.2	247½	243	KBC Advanced Tc	243	-1½	L3.29	2.5	1.7	28.9
§200	F.P.	61.9	278½	259	London Bridge Sw	263½	-2	-	-	-	31.9
§	F.P.	13.6	68½	68½	M & G High Inc	68½		W5.2	-	9.5	-
§	F.P.	1.82	10	9	M & G High Cap	9		-	-	-	-
§	F.P.	20.7	102½	99½	M & G High Pckg	102½		W5.2	-	6.3	-
§	F.P.	18.2	80½	77½	M & G High Unit	80		W5.2	-	8.1	-
§-	F.P.	-	3	2¼	†Prestbury Leisur	2¾		-	5.4	-	11.1
§	F.P.	63.0	292½	220	Pad Group	280½		5.43	2.4	2.8	20.3
§-	F.P.	19.9	122½	119½	†Q Group	119½		-	-	-	-
§100	F.P.	29.4	100	98	RiverMerc 1st UK	98	-1	-	-	-	-
§	F.P.	10.1	8	3¼	†Screen	5¼		-	-	-	21.6
§145	F.P.	24.7	153½	150½	†Total Office Grp	153½	+1	L4.8	2.8	3.9	9.9
§110	F.P.	119.1	124½	119½	Usher Trowbridge	120½		W3.5	3.0	3.6	11.6
§40	F.P.	5.93	43½	40½	†VFG	41½		-	-	-	26.2

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Mar 21	% chg on day	Mar 20	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index(32)	1730.39	-0.3	1736.22	2244.81	1.94	-	2405.53	1674.81
■ Regional Indices								
Africa (14)	2085.54	+0.1	2064.33	3040.06	4.34	33.15	3252.18	1918.45
Australasia (6)	1973.92	-0.1	1975.42	2628.76	2.73	21.34	2644.14	1941.72
North America (12)	1608.99	-0.4	1616.25	1969.49	0.83	51.56	2134.81	1550.58

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition. Market closed 21/3/97: South Africa.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Mar 24	Day's chge%	Mar 21	Mar 20	Mar 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4214.8	-0.9	4254.8	4258.1	4332.2	3881.8	3.82	2.10	15.53	48.33	1782.95
FTSE 250	4536.9	-0.6	4565.0	4565.2	4852.9	4296.5	3.52	1.48	24.00	25.46	1889.90
FTSE 250 ex IT	4574.7	-0.6	4602.3	4602.1	4893.8	4327.8	3.61	1.50	23.03	26.23	1890.26
FTSE 350	2086.0	-0.9	2104.4	2105.7	2143.1	1854.0	3.75	1.98	16.79	21.33	1800.77
FTSE 350 Higher Yield	2011.3	-1.0	2032.3	2031.8	2068.4	1810.5	4.90	1.86	13.71	25.09	1488.01
FTSE 350 Lower Yield	2167.5	-0.7	2182.9	2185.4	2224.4	1902.0	2.61	2.21	21.73	17.27	1534.42
FTSE SmallCap	2312.07	-0.4	2320.74	2321.50	2343.10	2085.78	2.99	1.57	26.57	13.74	1943.20
FTSE SmallCap ex IT	2320.50	-0.3	2326.88	2327.62	2349.57	2072.06	3.15	1.75	22.68	13.85	1964.60
FTSE All-Share	2051.29	-0.8	2078.60	2078.85	2115.40	1833.81	3.70	1.96	17.24	20.37	1805.83

■ FTSE Actuaries Industry Sectors

	Mar 24	Day's chge%	Mar 21	Mar 20	Mar 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	4093.56	-0.7	4093.04	4097.48	4136.00	3332.74	3.68	2.14	15.86	29.74	1794.24
12 Extractive Industries(5)	3968.66	-1.1	4015.49	4005.00	4092.22	4193.17	3.34	2.86	13.21	36.05	1270.80
15 Oil, Integrated(3)	4176.34	-0.7	4205.51	4212.30	4240.33	3371.06	3.90	2.10	15.27	20.17	1880.11
18 Oil Exploration & Prod(12)	3528.42	-0.4	3544.20	3548.52	3720.94	2361.73	1.58	2.20	35.98	27.53	2216.42
20 GEN INDUSTRIALS(271)	1982.67	-0.8	2070.04	2006.49	2033.64	2096.37	3.90	1.90	18.48	15.21	1123.30
21 Building & Construction(35)	1331.07	-1.4	1350.34	1357.34	1374.48	1118.13	3.12	1.42	21.93	10.48	1143.43
22 Building Matls & Merchs(31)	1864.24	-1.2	1887.70	1883.61	1911.26	1845.14	4.26	2.88	10.89	2.18	964.57
23 Chemicals(28)	2264.80	-0.8	2282.82	2302.82	2320.67	2597.40	4.43	1.59	17.02	29.43	1113.22
24 Diversified Industrials(18)	1498.92	-1.3	1517.30	1500.65	1533.87	1773.87	4.91	1.51	14.36	27.09	891.10
25 Electronic & Elect Equip(38)	2164.58	-0.8	2204.52	2207.73	2251.43	2382.72	3.58	1.52	22.83	4.84	1162.77
26 Engineering(70)	2286.65	-0.5	2314.16	2300.75	2323.21	2404.61	3.22	2.42	15.99	14.21	1617.49
27 Engineering, Vehicles(13)	2543.45	-0.3	2553.42	2562.22	2573.63	2837.72	3.90	0.19	80.07	23.91	1515.12
28 Paper, Pckg & Printing(27)	2500.89	-0.4	2511.97	2509.84	2530.91	2726.40	4.17	1.69	15.83	20.03	1075.12
29 Textiles & Apparel(16)	1077.21	-0.1	1076.10	1080.51	1091.82	1472.10	5.56	0.66	18.97	2.25	662.89
30 CONSUMER GOODS(94)	4073.57	-1.1	4110.62	4106.83	4155.54	3475.45	3.72	1.88	17.82	38.39	1562.70
32 Alcoholic Beverages(7)	2865.30	-1.9	2922.06	2922.75	2901.30	2791.30	4.56	1.82	14.44	31.26	1073.28
33 Food Producers(25)	2878.50	-0.8	2898.51	2872.85	2981.67	2530.87	3.83	1.92	17.05	21.64	1342.75
34 Household Goods(17)	2912.22	-1.2	2948.92	2955.62	2981.29	2579.10	3.54	2.11	15.26	46.39	1194.13
36 Health Care(18)	2135.34	+0.3	2129.46	2148.54	2181.26	1937.93	2.89	1.71	25.28	4.71	1322.12
37 Pharmaceuticals(12)	6295.28	-1.5	6390.62	6401.86	6489.26	4883.50	3.66	1.83	18.55	83.79	1800.59
38 Tobacco(2)	4272.45	+2.6	4164.86	4130.44	4277.48	4210.03	5.34	1.65	10.67	147.58	1137.22
40 SERVICES(273)	2601.71	-0.7	2620.80	2613.04	2648.92	2368.28	2.98	1.96	21.52	15.23	1387.65
41 Distributors(30)	2743.46	+0.5	2730.10	2709.20	2742.80	2668.15	3.33	1.94	19.33	7.64	1034.25
42 Leisure & Hotels(31)	3433.08	-1.4	3474.36	3456.70	3555.08	2947.23	2.95	1.72	27.48	54.57	1897.38
43 Media(44)	4213.14	-0.7	4242.07	4229.54	4310.68	3923.12	2.28	1.97	27.84	15.67	[illegible]
44 Retailers, Food(15)	1950.42	-0.3	1958.01	1956.96	1936.25	1975.51	4.07	2.20	13.45	6.42	1273.41
45 Retailers, General(53)	2010.45	-1.1	2033.30	2032.20	2050.14	1986.31	3.28	2.03	18.74	7.18	1178.48
47 Breweries, Pubs & Rest.(22)	3225.45	-1.2	3265.79	3293.02	3349.19	2956.47	3.54	2.10	17.83	17.33	1960.00
48 Support Services(56)	2230.76	+0.5	2215.82	2208.36	2252.04	2185.61	1.80	2.58	26.90	5.27	1385.55
49 Transport(22)	2781.96	-0.8	2785.29	2774.19	2835.03	2588.05	3.22	2.06	18.84	11.84	1185.35
60 UTILITIES(33)	2643.03	-1.0	2669.91	2682.75	2739.60	2446.08	5.05	1.50	16.52	4.34	1361.17
61 Electricity(10)	2768.05	-1.0	2794.04	2782.04	2834.59	2728.83	5.24	1.99	12.03	2.28	1327.90
62 Gas Distribution(2)	1481.51	-1.1	1478.73	1495.85	1535.89	1544.83	8.34	‡	‡	0.00	796.92
66 Telecommunications(6)	2278.50	-0.9	2299.89	2320.60	2395.45	2003.83	3.85	1.58	21.31	0.28	1075.82
68 Water(12)	2388.81	-1.2	2419.18	2421.15	2492.70	2176.25	5.23	2.34	[illegible]	0.00	1002.07
69 NON-FINANCIALS(681)	2130.88	-0.8	2148.78	2147.29	2178.02	1952.14	3.72	1.87	18.02	16.70	1673.83
70 FINANCIALS(106)	3657.62	-0.8	3686.87	3709.73	3691.81	2825.58	3.69	2.39	13.42	69.30	1843.27
71 Banks, Retail(8)	5298.51	-0.6	5333.28	5342.68	5527.80	3943.06	3.80	2.65	12.41	122.52	1768.04
73 Insurance(16)	1601.73	-2.4	1641.57	1632.28	1682.14	1375.10	5.38	2.21	10.68	37.17	1267.90
74 Life Assurance(7)	4386.33	-2.0	4477.41	4453.32	4624.39	3454.72	3.69	2.03	15.83	58.03	1889.40
77 Other Financial(23)	3120.29	-0.8	3140.38	3160.07	3253.86	2516.47	3.29	2.03	15.91	24.95	1695.18
79 Property(44)	1855.19	-0.5	1851.44	1854.39	1869.41	1464.78	3.43	1.32	27.70	7.20	1177.78
80 INVESTMENT TRUSTS(127)	3291.97	-0.7	3307.63	3309.89	3344.23	3111.04	2.22	1.11	50.06	14.24	1127.54
89 FTSE All-Share(914)	2051.29	-0.8	2078.60	2079.85	2115.40	1833.81	3.70	1.96	17.24	20.37	1805.83
FTSE Fledgling	1304.62	-0.2	1305.96	1309.73	1325.40	1170.04	3.01	0.76	54.35	7.27	1395.78
FTSE Fledgling ex IT	1322.09	-0.1	1323.72	1327.10	1344.37	1174.48	3.32	0.73	51.41	7.51	1416.80

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4260.4	4256.0	4234.3	4224.2	4231.8	4229.7	4221.0	4221.1	4218.8	4265.8	4214.3
FTSE 250	4563.5	4564.8	4558.0	4545.3	4541.4	4541.6	4539.3	4537.1	4554.8	4565.8	4536.7
FTSE 350	2106.4	2105.6	2095.5	2090.5	2093.0	2092.3	2088.7	2088.8	2085.4	2106.6	2085.8

Time of FTSE 100 Day's High: 8:49 AM Day's Low: 4:24 PM. FTSE 100 1996/97 High: 4444.3 (11/03/97) Low: 3632.3 (15/07/96).

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1263.6	1264.8	1259.2	1248.1	1244.4	1243.8	1240.1	1241.5	1243.8		1268.1	-24.3
Pharmaceuticals	6297.7	6276.7	6239.3	6234.2	6244.8	6243.0	6234.3	6233.5	6215.2	6213.5	6309.0	-95.5
Water	2413.1	2411.6	2406.6	2399.0	2394.0	2393.1	2388.5	2395.7	2377.4	2380.1	2410.4	-30.3
Banks, Retail	5389.0	5385.3	5343.8	5327.3	5342.7	5338.0	5308.2	5319.0	5326.5	5325.6	5330.7	-26.1

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 80 are not shown. ‡ Values are negative. Quarterly constituent changes please see edition dated 13/2/97 p.34. DELETION: Amvesco RFD (7) & (FTSE 250); Newman-Tonks (22) & (FTSE SmallCap); Ramco Energy Inc German Invest. Tst. (FTSE Fledgling); INSERT: Shaw (A) (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 24 / Sch)

BELGIUM/LUXEMBOURG (Mar 24 / Frs.)

CZECH REP (Mar 24 / Korune)

DENMARK (Mar 24 / Kr)

FINLAND (Mar 24 / Mka)

FRANCE (Mar 24 / Frs.)

GERMANY (Mar 24 / Dm.)

GREECE (Mar 24 / Drachma)

ITALY (Mar 24 / Lira)

NETHERLANDS (Mar 24 / Fls.)

NORWAY (Mar 24 / Kroner)

POLAND (Mar 24 / Zloty)

PORTUGAL (Mar 24 / Escudo)

SPAIN (Mar 24 / Pts.)

SWEDEN (Mar 24 / Kronor)

SWITZERLAND (Mar 24 / Frs.)

TURKEY (Mar 24 / Tk Lira)

PACIFIC

JAPAN (Mar 24 / Yen)

AUSTRALIA (Mar 24 / Aust$)

HONG KONG (Mar 24 / H.K.$)

INDONESIA (Mar 24 / Rupiah)

MALAYSIA (Mar 24 / MYR)

NEW ZEALAND (Mar 24 / NZ $)

SINGAPORE (Mar 24 / S$)

SOUTH KOREA (Mar 24 / Won)

TAIWAN (Mar 24 / TW $)

THAILAND (Mar 24 / Baht)

AFRICA

SOUTH AFRICA (Mar 24 / Rand)

NORTH AMERICA

CANADA

TORONTO (Mar 24 / Can $)

MONTREAL (Mar 24 / Can $)

INDICES

Indonesia					
Jakarta Comp.(10/8/82)	849.82	858.10	863.13	712.80 26/2/97	512.48 2/1/96
Ireland					
ISEQ Overall(4/1/88)	2926.02	2946.19	2937.78	3069.83 11/3/97	2234.81 2/1/96
Italy					
Banca Comm. Ital.(1972)	(c)	729.85	732.31	787.71 10/2/97	572.21 27/3/96
MIB General(2/1/97)	1097.0	1087.0	1101.0	1197.00 10/2/97	991.00 2/1/97
Japan					
Nikkei 225(16/5/49)	18043.02	18633.16		(c) 22666.80 26/6/96	17303.78 10/1/97
Nikkei 300(1/10/82)	264.04	267.73		(c) 319.70 26/6/96	251.04 27/1/97
Bangkok SET(30/4/75)	713.85	702.10	703.09	1415.04 6/2/96	676.65 6/3/97
Turkey					
IMKB Nat 100(1986)	1651.00	1654.00	1649.00	1700.08 27/1/97	388.90 2/1/96
WORLD					
MS Capital Int.$(1/1/70)	824.4*	827.9	822.9	854.40 25/2/97	725.90 15/1/96
CROSS-BORDER					
Eurotrack 100(26/10/90)	2128.35	2130.07	2121.94	2231.93 11/3/97	1504.40 11/1/95
Euro Top-100(26/6/90)	1799.25	1804.82	1792.40	1884.47 11/3/97	1330.01 11/1/96
HSBC JC Drgn(31/12/88)	(u)	398.10	400.75	429.46 20/1/97	344.19 2/1/95
ING Sngs Emrg(7/1/92)	174.78	175.22	175.73	181.33 25/2/97	147.35 2/1/96

US INDICES

Dow Jones	Mar 21	Mar 20	Mar 19	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Industrials	6804.70	6820.28	6877.68	7085.16 (11/3/97)	5032.94 (10/1/96)	7085.16 (11/3/97)	41.22 (8/7/32)
Home Bonds	102.55	102.57	102.64	106.09 (14/2/96)	100.99 (15/7/96)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2424.89	2417.10	2418.42	2489.59 (18/3/97)	1882.71 (18/1/96)	2489.59 (18/3/97)	13.23 (8/7/32)
Utilities	221.21	220.09	221.42	240.85 (22/1/97)	204.86 (30/7/96)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 6890.52(6901.47) Low 6742.85(6785.14) (Theoretical‡)
Day's high 6851.62(6879.67) Low 6790.08(6798.37) (Actual‡)

Standard and Poors	Mar 21	Mar 20	Mar 19	1996/97 High	1996/97 Low	Since compilation High	Since compilation Low
Composite‡	784.10	782.65	785.77	816.29 (18/2/97)	598.48 (10/1/96)	816.29 (18/2/97)	4.40 (1/6/32)
Industrials♥	915.35	914.83	918.52	950.96 (18/2/97)	702.07 (15/1/96)	950.96 (18/2/97)	3.52 (30/6/32)
Financial	91.21	90.50	90.80	97.20 (10/3/97)	58.67 (10/1/96)	97.26 (10/3/97)	7.13 (4/9/74)
NYSE Comp.	412.80	411.78	413.59	427.78 (10/3/97)	321.41 (10/1/96)	427.78 (10/3/97)	4.64 (25/4/42)
Amex Comp.	591.22	591.55	591.78	617.61 (22/5/96)	524.20 (16/7/96)	617.61 (22/5/96)	524.20 (16/7/96)
NASDAQ Cmp	1254.07	1259.25	1249.29	1388.86 (22/1/97)	988.57 (15/1/96)	1388.06 (22/1/97)	54.87 (3/10/74)

■ RATIOS

	Mar 21	Mar 14	Mar 7	Year ago
Dow Jones Ind. Div. Yield	1.89	1.95	1.93	2.13
	Mar 19	Mar 12	Mar 5	Year ago
S & P Ind. Div. yield	1.78	1.74	1.77	1.87
S & P Ind. P/E ratio	22.39	22.81	22.55	21.26

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Eastman Kd	11,355,800	78½	9¾
Philip Mr	9,831,200	111½	-4⅜
Columbia H	8,732,800	38⅝	-2⅜
IBM	6,526,800	132¼	-4¼
Wal-Mart	5,964,300	29⅞	+½
AT & T	5,902,800	34½	+⅛
Tele Mex	5,003,900	39⅞	+¼
Glaxo Wlc	4,839,600	34⅝	+⅛
SBC Comms	4,267,000	40½	----
Zeneca	4,179,500	84¼	+¼

■ TRADING ACTIVITY

● Volume (million)	Mar 21	Mar 20	Mar 19
New York SE	534.371	501.617	529.236
Amex	21,171	19.165	20.800
NASDAQ	582.199	647.879	719.789
NYSE			
Issues Traded	3,331	3,297	3,325
Rises	1,249	952	935
Falls	1,158	1,539	1,538
Unchanged	924	806	852
New Highs	44	36	56
New Lows	47	68	64

INDEX FUTURES

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	2606.0	2578.0	-9.0	2609.0	2572.0	16,878	30,602
Apr	2609.5	2580.5	-9.0	2610.0	2574.5	5,086	5,150
■ DAX							
Jun	3326.0	3316.5	+11.5	3339.0	3311.0	16,220	-
Sep	3355.0	3341.0	+8.00	3357.5	3337.0	52	-

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	2107.00	2103.00	+3.00	2112.00	2101.25	7,388	14,847
Apr	2096.00	2087.00	+3.00	2096.50	2084.75	5,263	12,214
■ SOFFEX							
Mar	4509.0	4507.0	+9.5	4533.0	4495.0	2,558	24,533
Apr	4494.0	4484.0	+19.0	4494.0	4494.0	10	1,138

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	791.15	793.80	+2.05	794.10	790.80	60,579	170,574
Sep	-	799.85	-	-	799.20	299	4,124

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	18700.0	18090.0	-500.0	18750.0	18090.0	21,709	246,693
Sep	18650.0	18600.0	+30.0	18720.0	18600.0	41	2,711

Open interest figures for previous day.

‡ Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ‡ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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■ TOKYO - MOST ACTIVE STOCKS: Monday, March 24, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sakura Bank	8.4m	775	-10	Sanwa bank	5.3m	1440	+40
Nippon Credit Bk	8.3m	287	-14	Bk Tk-Mitsubishi	5.0m	2080	-20
Toshiba Corp	7.2m	683	-8	Daiichi Kangyo B	4.3m	1450	-10
Nippon Steel Cp	7.2m	335	-2	Sumitomo Bank	4.1m	1650	+10
Seven-Eleven Jpn	5.7m	7360	-120	Fuji Bank	4.1m	1560	-10

4 pm close March 24

NEW YORK STOCK EXCHANGE PRICES

1996/97 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32	24¼	AAR	0.48	1.6	24	1558	29¾	29¼	29⅝	-⅛
46⅛	33	AMP	1.04	2.0	27	10605	36⅛	35⅝	35⅝	-⅝
87½	68	AMR			8	4685	86	84½	84¾	-⅝
50½	33¼	ASA	1.20	3.5	28	398	34⅞	34¼	34½	-⅛
60½	39½	Abbott	1.08	1.8	24	7459	59⅝	58	59½	+1¼
17½	12¼	AbitibiPr x	0.80	2.5	8	936	15⅞	15½	15⅞	+¼
20¼	13½	ABM Ind	0.40	2.1	17	5508	19¼	18½	19¼	+⅛
25	13⅞	Acptacain			6	188	16	15⅝	16¼	-¼
68⅞	37¼	ACE Ltd	0.72	1.1	16	1103	64	63⅛	63⅛	-¾
10¼	9⅛	ACM Gvt In x	0.90	8.7	11	349	10⅜	10¼	10¼	+⅛
7⅞	6⅝	ACM GvOpp x	0.63	8.4		414	7½	7¼	7½	+⅛
9⅞	8⅛	ACM Man x	0.90	9.2		345	9¾	9⅝	9¾	
13⅞	9⅝	Acme Elect				3	9⅝	9⅛	9⅝	
31⅝	13⅞	Acme Mkts			71	167	16⅛	15⅛	15⅝	+⅛
33¾	27¼	Acordia	0.80	2.4	15	92	32¾	32½	32¾	-⅛
29¾	12	Acuson				1598	20	24⅛	24¾	+¼
21⅛	17⅞	Adams Expr	0.80	2.7	1	321	20⅝	20⅛	20¾	+¼
48½	10⅛	AdvMic				43297	39	20⅝	37⅝	-1⅛
15	9½	Advest Grp			9	72	13	12⅝	12⅞	
29⅛	9⅝	Advo Inc			27	71	11⅝	11¾	11⅛	
73⅝	41¼	Aegon	1.16	1.7	20	128	69¼	58⅞	69¼	-1¼
6¾	3½	Agritis				239	3⅞	3⅝	3⅝	-⅛
67⅝	40⅞	AES Corp				20	60⅝	60⅜	60⅜	
93⅝	57⅝	Aetna	0.80	0.9	64	4023	88⅞	67¼	27¾	-½
44	28¼	Aflac	0.40	1.0	15	744	41¼	40¾	41⅛	+⅛
23	17⅛	AGL Res	1.80	0.8	14	448	19⅛	19⅛	19¼	-¼
46¼	21¼	Ahmanson	0.38	2.2	42	3871	39½	38⅞	39⅛	
77⅝	50⅞	AirPrC	1.10	1.0	18	4083	69⅞	69	69¼	-¾
29¼	19½	Airbrne Frt	0.80	1.0	22	278	20⅞	20⅛	20¾	-⅛
27⅛	16¾	Airgas			20	1675	20¼	19½	19⅝	-⅛
16⅞	10	Airtouch	1.00	15.6	0	367	11⅛	11⅛	11⅞	-¼
39⅝	23½	AirTch			57	17485	24⅝	24	24¼	-¼
30¾	16⅞	Alaska Air			10	1393	27¼	26⅝	26⅝	-⅛
24½	17⅛	Albany Int x	0.42	2.0	15	306	21⅛	21	21⅛	+⅛
[illegible]										

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FT

FINANCIAL TIMES

Continued on next page

4 pm close March 24

NYSE PRICES

1996/97 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
20¾	12	SchlAB	0.06	0.4	61	3636	19⅞	18⅝	19⅝	-⅛
29⅝	17	Scotsman	0.10	0.4	15	72	28½	28½	28½	
16⅛	12½	ScuddNwF x	0.08	0.2		159	16	12¾	13	+⅛
15⅝	11	ScuddNEuF	0.06	0.4		138	14⅝	14½	14⅝	
20¾	14¾	SeaCoA	0.77	4.7	13	814	16⅞	16⅛	16⅜	-⅜
16⅞	15	SeaC1.4625	1.46	9.4		26	15¾	15⅝	15⅝	
59¾	19	Sgate				3620820	44	41⅞	43⅛	
42¾	30⅞	Sagram	0.66	1.6		5799	40⅞	39¾	40¾	+1⅞
26	17⅛	Seagull En			31	715	18⅝	18⅜	18½	
44⅞	28	Sealed Air			28	1184	u45⅞	43	45⅞	+2⅞
58¾	38¾	SearsR e	0.92	1.7	17	8279	54¾	53⅜	53¾	
25	17	SeCpSBI	1.08	5.4	18	375	24⅛	24	24	-⅛
13	11⅞	Seligm Sel x	0.84	6.7		21	12⅝	12½	12½	-⅛
23⅜	13⅝	Sensormat	0.22	1.3		1036	16¾	16⅛	16½	+⅜
46⅞	29½	SequaA	0.60	1.3	46	47	45⅝	45½	45¾	+⅛
53⅞	38	SequaB	0.60	1.1	60	z0	47½	47½	47½	
35⅞	18½	SerivCp	0.30	0.8	29	3384	32⅝	32⅛	32⅞	+¼
26⅞	19½	SvMstr	0.66	2.6	18	864	25⅝	25⅜	25⅞	+¾
6½	3⅞	SevMerch			8	926	3⅝	3½	3½	
80⅞	28½	SGSThm			15	1171	69⅞	67⅞	68½	-⅞
15⅝	10⅝	Shaw Ind	0.30	2.2	76	1987	13¾	13½	13¾	+⅛
17	10⅛	Shelby Wll	0.52	2.3	14	11	14⅛	14	14	-⅛
107½	76⅝	ShellTr	4.64	4.5	22	600	103⅞	102⅝	103⅜	-⅛
59¾	38	SherWil	0.80	1.4	98	1749	55¾	55	55½	+⅛
15⅝	4¾	Shoneys			15	6903	4¾	d4⅜	4⅝	-⅛
35⅝	17	Showboat	0.10	0.5	35	332	20⅛	19⅝	20⅛	+⅛

[illegible]

1996/97 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
21⅞	16⅞	1stUtilEnMk	0.21	1.6						
28⅝	18⅛	TencHlth			13					
49¾	38	Tenneco	1.20	3.1	30					
44	34⅞	Teppco Pts	3.00	7.0	11					
32⅞	11⅞	Teradyne			25					

[illegible]

1996/97 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
25¾	20⅝	Yankee Egy x	1.30	5.9	10	37	22	21⅞	22	
57	42½	York Int x	0.48	1.1	12	2475	42⅞	42⅝	42⅝	-⅛
5	3	Zapata				217	4⅛	4½	4½	-¼
25¾	5⅞	ZenithE				775	10¾	10⅝	10⅝	
28⅝	21⅞	Zeolin Nat	1.00	3.7	12	54	27	26⅞	26⅞	-⅛
7½	6½	Zenix Inc x	0.73	10.3		123	7⅝	7¼	7⅛	-⅛
23¾	15⅛	Zero	0.12	0.6	15	133	19⅝	19¼	18⅞	-½
11⅞	10½	ZweigFd	1.18	10.3		211	11¼	11⅛	11¼	+⅛
8	8	Zweig Totl x	0.04	0.9		415	8½	8¾	8½	

Price data supplied by Exel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close March 24

[illegible]

NASDAQ NATIONAL MARKET

4 pm close March 24

[illegible]

- L -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Labone	0.72	78	115	17⅞	19⅛	18¾	-⅛
Ladd Furn			248	15⅛	14¾	14¾	-⅜
Lam Rsch			1018257	32¼	29⅞	31½	-⅜
Lancaster x	0.72	16	243	48¾	46¼	48¾	
Lance	0.96	21	117	17¾	17⅝	17⅞	

- R -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
RCSB Fin	0.60	12	589	32⅞	32	32⅛	
Read-Rite			d7128	27⅛	25	26⅞	+1⅞
Recoton		12	140	13¾	13½	13¾	+¼
RegFinCp x			1007	60⅞	59½	60	+½
Repligen			10	1⅞	1⅞	1⅞	-.05
Repub Ind			9871	34⅞	33	34¾	+1⅛
ResoundMed		23	z0	23¼	23¼	23¼	

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx			2728554	47⅛	43¼	46 13/16	+2 3/16
Xircom		20	3736	18⅞	14½	14⅞	-1
Xoma Corp			3334	5 7/16	4 15/16	5 1/16	- 3/16
Yellow			2653	17⅛	16⅞	17	+⅛
York Rsch		16	539	8⅜	8	8	- 5/16
ZionsUtah	1.76	17	91	125½	122¾	123	-1

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
AcroCard	US$8.125		12020	8.25	8	Innogenetics	US$12	-0.25	37665	12.625	10.5
Anwerk Systems	US$10.75		59950	11.375	10.25	Mestor Internatl.	US$9.625	+0.5	250	11.375	9
Dr Solomon's ADS	US$21.5	+0.625	1000	28	20.875	PixTech	US$4.75	+0.125	1000	0.25	4.75
Esprit Telecom ADS	US$12.25		8	12.5	12						

Prices for 24/3/97. Please note that trading prices are currently used to calculate highs and lows.

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Weak tech sector spills over to Dow

AMERICAS

US share prices were lower at midsession as another day of *sharp losses in the technology sector* spilled over into the broader market, *writes Lisa Bransten in New York.*

Near noon, the technology-rich Nasdaq composite was off 21.05 or 1.7 per cent at 1,233.02 and the Pacific Stock Exchange technology index, which contains Nasdaq and NYSE-quoted shares, was 1.9 per cent lower.

The weakness in the technology sector was sparked in part by reports of a delay in the introduction of new software from Microsoft. Shares in the second largest company on the Nasdaq tumbled $5½ or 6 per cent to $88½, their lowest level since January 20.

Worries about weakness among industry leaders hit Intel, the Nasdaq's largest issue. Shares in the semiconductor giant slid $4¼ or 3 per cent to $126¾. Other declining *technology companies* included Cisco Systems, $2⅛ weaker at $47⅛, and Oracle, which shed $⅝ at $39¼.

Falls in Hewlett-Packard and IBM contributed to weakness on the Dow Jones Industrial Average, which was off 12.09 at 6,792.70. The Standard & Poor's 500 lost 2.17 at 781.95.

HP shed $1¼ at $55⅝ and IBM was $1⅝ lower at $131.

The Dow did derive some support from a modest rebound in Philip Morris, which had skidded in recent sessions after Liggett Group won immunity from anti-*tobacco litigation,* by agreeing, among other things, to warn on its packs that smoking was addictive.

Philip Morris regained $1⅝ of the $26½ it had lost since March 12, bringing the share price to $113⅛. RJR Nabisco also regained some ground, rising $⅜ to $31⅜.

Lehman Brothers, the investment bank, managed to gain $⅞ or 3 per cent to $31⅞ in spite of the falling market after reporting first quarter results that were well ahead of expectations.

TORONTO was mixed at midsession as the TSE-300 composite index climbed 19.02 at 6,093.80; but declining stocks outstripped those which advanced.

Avenor rose C$1.25 to C$23.80 as the forestry group said it had rejected approaches last week by Domtar about a possible merger, and would focus instead on a merger with Repap Enterprises. Domtar added 5 cents to C$11.65 and Repap picked up 3 cents to C$2.45.

Bre-X Minerals added 40 cents to C$15.60 in heavy trade after news that its management was considering whether to sue publications that it claimed had cast doubt on the integrity and accuracy of its Busang assay results and resource calculations.

Telmex hurts Mexico

MEXICO CITY was lower at midsession after a single cross trade of 100,000 shares in Telmex, early in the session, weighed down a very slow market. The IPC index was 18.61 lower at 3,791.29 as Telmex eased 20 centavos to 15.60 pesos.

Traders noted that Telmex had fallen sharply last Thursday ahead of the triple-witching in US markets on Friday. Dealers added that the primary auction of government securities, to be held later in the day, contributed to the cautious tone.

SAO PAULO was weak at midsession with the market already discounting a 25 basis point rise in US interest rates after today's FOMC meeting and many investors already absent for the Easter *holiday.* The Bovespa index was 66 down at 9,236.

SANTIAGO edged higher at midsession after unexpectedly low economic growth in January fuelled hopes of a cut in interest rates. The IPSA index rose 0.44 higher to 113.36.

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1997	% change sterling † Start of 1997	% change in US $ † Start of 1997
Austria	-1.27	+1.27	+15.04	+25.07	+2.90	+6.31
Belgium	-4.23	-0.10	+27.17	+30.17	+6.77	+10.31
Denmark	-3.57	-3.26	+35.41	+45.63	+21.77	+25.79
Finland	-4.27	-0.95	+51.16	+58.56	+32.62	+37.00
France	-2.06	+0.92	+30.86	+41.53	+17.90	+21.79
Germany	-1.82	+3.38	+30.03	+42.59	+17.36	+21.24
Ireland	-3.52	-3.68	+25.15	+29.23	+22.73	+26.79
Italy	-1.77	-5.40	+24.16	+22.08	+11.21	+14.88
Netherlands	-3.93	-0.10	+37.99	+48.46	+21.65	+25.67
Norway	-4.24	-5.41	+33.09	+39.67	+27.82	+32.04
Spain	-3.65	-0.21	+42.43	+50.25	+23.56	+27.63
Sweden	-3.93	+0.97	+40.81	+56.66	+31.91	+36.27
Switzerland	-2.99	-0.70	+22.94	+34.54	+3.21	+6.61
UK	-3.72	-1.85	+13.61	+14.72	+14.72	+18.51
EUROPE	-3.14	-0.54	+24.42	+30.77	+15.79	+19.61
Australia	-0.99	-2.99	+6.58	+8.37	+10.84	+14.50
Hong Kong	-1.54	-7.33	+5.19	+17.77	+13.77	+17.53
Japan	+3.24	-1.95	-11.03	-10.75	-27.21	-24.80
Malaysia	-2.83	-5.41	+9.37	+24.77	+23.72	+27.61
New Zealand	+0.59	-3.72	-0.23	-0.06	+2.69	+6.09
Singapore	-3.27	-10.67	-11.46	-3.83	-8.79	-5.76
Canada	-2.08	-2.69	+25.40	+31.48	+25.83	+29.99
USA	-1.20	-2.25	+20.12	+26.70	+22.65	+26.70
Mexico	+0.92	-2.73	+23.20	+34.69	+26.81	+31.00
South Africa	-0.33	-1.41	+5.94	+13.76	-9.34	-6.34
WORLD INDEX	-1.11	-1.94	+13.60	+18.60	+6.17	+11.75

† Based on March 21st 1997. © Copyright, FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. 1997. All rights reserved.

Steels lead the Frankfurt charts yet again

EUROPE

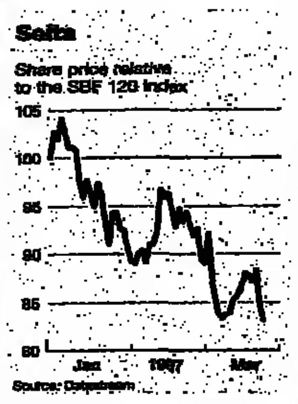
Bourses were hesitant, and *mostly sluggish,* ahead of today's expected US interest rate decision. Even **FRANKFURT**, which had been buoyed by bond market strength and steel industry speculation, lost most of its gains after the Dow went sour in the US mid-morning.

The Dax index closed 14.05 *higher* at an *Ibis*-indicated 3,302.57 after a high of 3,329.47. Turnover came back from DM13.5bn last Thursday, before Friday's inflationary triple witching effect, to just DM9.7bn, Thyssen leading in DM802m.

Steels led the share price charts, too. Krupp came in DM17.50 or 5.5 per cent higher at DM337 and Thyssen was up DM20 or 5.1 per cent at DM410.50.

Mr Hans-Peter Wodniok, at Crédit Lyonnais in Frankfurt, said that Krupp would be the obvious beneficiary if its takeover went ahead; but he questioned whether potential buyers would pay the prices that some analysts were quoting on any sell-off of the merged group's non-core assets.

The day's other big stars were SAP prefs, up DM12.65 to DM276.95 on the hope that revenue targets would be revised later this week to take in a 34 per cent gain to DM5bn this year, rather than the 25 to 30 per cent previously mooted; and Schering, another DM5.75 higher at DM173.20 on last week's fan letter from the Goldman Sachs pharmaceuticals team.



PARIS, too, saw takeover speculation but light business with turnover at FFr4.8bn as the Suez/Lyonnaise des Eaux mergers continued to absorb the market.

Suez, with cash and unused tax losses, was billed as the potential bidder. Professionals bet that it would have to pay a premium to effect the merger and its shares fell FFr3.10 or 1.1 per *cent to FFr277.30,* while Lyonnaise rose FFr13 or 2.3 per cent to FFr574.

Outside the CAC 40 the tobacco group, Seita, continued to lose ground following last week's admission by the Liggett group of the US of the health hazards of smoking. The shares fell another *FFr5.90* to *FFr200.90.* But Rexel, the electrical equipment retailer, rose sharply following Friday's announcement of three acquisitions, gaining *FFr58* or 3.4 per cent to FFr1,758.

ZURICH was flat, awaiting results from Roche after the market closed as well as *today's FOMC meeting. The* SMI index closed 6.0 higher at 4,497.3.

In the event, Roche delivered only the briefest of details and its 16 per cent rise in 1996 net profit was in line with forecasts. One analyst noted that the company had also failed to live up to some expectations that it would announce a change in its share structure. At the close, the certificates gave up some of Friday's 3.7 per cent rise to close SFr85 weaker at SFr12,250.

Nestlé, due to release 1996 results tomorrow, edged up *SFr4* to *SFr1,571 as forecasts* pointed to expectations of a 10 per cent rise in net profit.

Surveillance, the inspection and testing group, gave up another SFr70 to SFr3,030 on continuing worries over the loss of two large contracts.

MILAN featured a 7.8 per *cent surge in Parmalat, the* food group, as the market welcomed its acquisition of a majority stake in Canada's Beatrice Foods. Elsewhere, the market was largely weak, awaiting details of the deficit cutting mini budget, due later in the week.

The Comit index rose 0.98 to 730.38 while the real-time Mibtel index gave up 148 to 11,647.

Parmalat rose L172 to L2,340 as investors were reassured that the company had no plans to tap the market to finance its C$230m acquisition of 75.1 per cent of Beatrice.

Mediolanum, the insurance and financial services group, picked up L581 to L15,020 as Goldman Sachs initiated coverage of the stock with a "trading buy". Generali, the insurer, was L299 higher at L29,200 on a Goldman Sachs upgrade.

AMSTERDAM *underperformed* its neighbours yet again, the AEX index dipping 12.08 or 1.7 per cent to 715.22. Financials were hit by interest rate worries; the banking and insurance group, Fortis Amex, took the hardest knock at Fl 68.90, down Fl 2.70 or 3.8 per cent, but ING and ABN Amro fell by Fl 1.90 to Fl 69.20, and Fl 2 to Fl 124.70 respectively.

Among retailers, the supermarket group, Ahold, dropped Fl 5.20 to Fl 128.10 after Goldman Sachs cut it to market performer.

COPENHAGEN seemed to be talking more about the Easter holidays than US interest rate prospects as the KFX index closed 1.15 lower at 152.84. Carlsberg, the brewer, shed DKr4 to DKr388 on fears of delays in the British monopoly authorities' approval of the Bass/Carlsberg/Tetley merger.

However, a markedly better than expected performance from the insurer, Tryg Baltica, allowed it to transcend the general mood, with the shares up DKr11 at DKr355 after initially soaring by 8 per cent to DKr372.

TEL AVIV fell 1.5 per cent and blamed political tension after Israeli troops clashed with Palestinians for the fifth *consecutive* day. The Mishtanim index closed 3.44 lower at 242.34 on very low turnover of Shk72m against Shk136m last Thursday.

VIENNA saw weakness in Flughafen Wien, down 6.2 per cent at one stage and closing Sch14 or 2.5 per cent lower at Sch549 amid rumours that one of the group's two chief executives had resigned. The ATX index eased 0.91 to 1,215.69.

Written and edited by William Cochrane, Michael Morgan and James Mannix.

FTSE Actuaries Share Indices

Mar 24 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2132.84	2132.33	2130.95	2127.77	2128.64	2128.90	2127.82	2128.35
FTSE Eurotrack 200	2153.81	2153.59	2150.68	2148.89	2149.08	2148.55	2146.58	2148.82

	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17
FTSE Eurotrack 100	2130.07	2121.04	2141.03	2148.86	2164.22
FTSE Eurotrack 200	2150.57	2143.85	2172.34	2178.63	2196.22

Base value 1000 (26/10/90); High/day: 100 - 2134.00; 200 - 2154.59 Low/day: 100 - 2126.20 200 - 2144.62. † Partial.
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Tax fears and politics undermine Tokyo, Taipei

ASIA PACIFIC

Tax worries dropped **TOKYO** by 3.2 per cent, ending its five-day winning streak on late waves of selling, *writes Gwen Robinson.*

In a reversal of trading patterns in the last few months, international blue chips were heavily sold, leading down other sectors of the market. The Nikkei 225 average plunged 599.34, closing at the day's low of 18,043.82 after a morning high of 18,750.25.

Volume rose to an estimated 409m shares from 377m. Stocks opened higher after last week's 225 index gain of more than 700 points, following the government's *announcement last week of* forthcoming measures to revitalise the moribund real estate market. Investors were encouraged further yesterday morning by reports that the package would enable securitisation of land assets held by financial institutions as collateral for massive, non-performing loans.

In the afternoon, however, remarks by the Japanese finance minister, Mr Hiroshi Mitsuzuka, suggested that a further increase in sales tax may follow the next week's rise from the current 3 per cent to 5 per cent.

The Topix index of all first-section stocks plunged 18.77 to 1,375.71 and the capital-weighted Nikkei 300 was off 8.69 at 264.04. Declines led advances by 783 to 349, with 126 unchanged and, in London, the ISE/Nikkei 50 index gained 7.59 at 1,422.88.

Banks, and some property companies gained early ground on reports of the government's plan to promote securitisation of land assets. However, many fell back later in the day after profit takers moved in on blue-chip issues, triggering sell-offs in a range of sectors.

Sakura Bank fell Y10 to Y775 and Bank of Tokyo-Mitsubishi Y20 to Y2,060. Sumitomo Bank, however, added Y10 to Y1,650. Among realtors Mitsui Fudosan, which rose strongly last week, *fell Y50 to Y1,320,* and Mitsubishi Estate by Y20 to Y1,420.

Sony led blue chips down, falling Y300 to Y8,300, its first time below Y8,500 since early February. Pioneer Electronic shed Y120 to Y2,040 and Canon Y60 to Y2,510. *Toyota Motor fell Y80* to Y3,050 and Honda Y70 to Y3,550.

In Osaka, the OSE average fell 172.96 to 19,127.12 and volume swelled to 366.4m shares.

TAIPEI was shocked by a report that China would mount war games, possibly to protest at a Taiwan visit by Tibet's exiled spiritual leader, the Dalai Lama. The weighted index plunged 287.19 or 3.5 per cent to 7,946.83 in the market's biggest single-session drop since the last round of military tensions with China, when it fell 346.74 on January 5, 1996.

The United Daily News reported that China planned to hold a joint-forces military exercise in April in coastal Fujian, Guangdong and Zhejiang provinces; those nearest to Taiwan.

Sentiment was dampened further by a newspaper report that Morgan Stanley had lowered its suggested investment portfolio weighting for its investors in Taiwan stocks to 4 per cent from an original 6 per cent.

BANGKOK *gained 1.7 per* cent in thin turnover after several large-capitalisation banking issues late in the day. The SET index closed 11.75 higher at 713.85 in turnover of Bt1.9bn. However, brokers said an earlier government *announcement* that the Thai current account deficit was to narrow sharply, to 6.9 per cent of gross domestic product this year from 8.2 per cent in 1996, had failed to lift market sentiment.

HONG KONG *rebounded* 2.1 per cent with property stocks, in particular, notching up strong gains following their recent weakness. The Hang Seng index surged 259.84 to 12,749.14 but turnover dipped to HK$8.2bn.

Analysts noted that the renewed *demand for property* issues came only after a 15 to 20 per cent consolidation from the sector's peaks.

Sun Hung Kai Properties jumped HK$3.50 to HK$85.75 and Henderson Land added HK$3 to HK$67.

Hongkong Telecom fell 45 cents to HK$13.95 after running up 2.9 per cent last week on speculation that a Chinese investor would take a stake in the company.

SINGAPORE picked up 1.3 per cent on bargain-hunting after eight consecutive days of declines.

The Straits Times Industrials index, which had lost 100 points since March 11, ended 25.92 higher at 2,094.40, largely reflecting renewed optimism over the local property market.

SEOUL was lower on renewed worries about the *economic fallout* from the Hanbo Steel scandal and a report that the government would go ahead with a plan to list the state-run Korea Telecom in the first half of this year.

The composite index ended 5.87 lower at 617.26 and, after the market closed, the finance ministry said that it would not press ahead with the Telecom listing unless market conditions improved.

DHAKA came under renewed pressure, tumbling 7 per cent as selling pressure *mounted after reports* that a government inquiry might implicate big market participants in alleged manipulation of share prices during the bull run in October and November last year.

The all share index lost 86.52 at 1,153.52. The index *lost 2.7 per cent on Saturday* but trading was suspended on Sunday because of an opposition-led general strike.

A 1 per cent fall in Karachi came as a relief to many investors who had predicted larger losses following Friday's announcement that a standby loan agreement with the IMF had ended prematurely, writes Farhan Bokhari. The KSE-100 index lost 16.00 to 1,576.75. Analysts said the market was encouraged that Mr Nawaz Sharif, the prime minister, would announce economic reforms later this week, which might help to restore relations with the IMF.

S Africa tobaccos buffeted

South African tobacco companies were buffeted by last week's decision by Liggett in the US to co-operate with the anti-smoking lobby. Rembrant lost 60 cents to R44.90 and Richemont was 75 cents down at R58.75. Golds were also under pressure, taking the index down 56.4 to 1,326.0. Industrials gained 5.7 to 8,328.4 and the overall index ended 9.6 weaker at 7,088.9.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 21 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MARCH 20 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	217.59	-0.3	201.14	168.39	190.43	184.13	-0.1	4.12	215.21	202.94	170.26	191.35	184.22	225.77	186.44	202.10
Austria (24)	185.54	0.8	171.51	143.59	162.38	182.33	0.8	1.80	184.01	171.13	143.58	151.36	151.30	195.04	174.70	194.08
Belgium (26)	230.70	0.8	213.25	178.54	201.90	187.59	0.7	3.54	228.70	212.70	178.45	200.54	186.17	241.54	204.38	207.78
Brazil (28)	237.48	-0.1	215.52	183.79	207.84	463.87	-0.0	1.21	237.80	220.98	185.40	208.35	463.99	247.23	149.89	155.47
Canada (114)	192.86	0.2	178.37	149.33	168.87	182.75	0.3	1.91	192.55	179.07	150.24	168.84	192.17	203.31	154.12	155.89
Denmark (32)	363.24	-0.2	335.79	281.11	317.90	318.97	-0.4	1.52	364.03	338.56	284.05	315.22	315.29	376.96	291.79	293.28
Finland (26)	256.29	2.5	236.91	198.34	224.30	270.31	1.5	1.69	250.03	232.53	195.09	215.25	265.95	268.56	174.47	185.31
France (91)	218.51	1.4	201.99	169.11	151.24	194.79	1.3	2.72	215.43	200.35	168.09	168.91	192.26	225.82	185.94	187.46
Germany (59)	199.46	1.1	180.46	153.59	173.69	173.69	0.8	1.55	196.21	182.48	153.10	172.06	172.06	205.33	164.47	174.04
Hong Kong (59)	455.67	0.3	421.22	352.84	398.79	453.27	0.3	3.41	454.32	422.53	354.50	398.39	451.86	514.49	407.55	434.13
Indonesia (27)	229.05	-1.1	211.73	177.29	200.48	397.94	-1.1	1.58	231.51	215.31	180.64	203.01	341.84	-	-	-
Ireland (16)	323.96	0.8	299.46	250.71	283.52	290.27	0.3	3.26	321.33	298.65	250.73	281.77	289.32	343.35	258.26	260.03
Italy (58)	84.87	0.9	78.27	65.52	74.10	106.61	0.5	2.10	83.94	78.07	65.50	73.61	105.99	96.32	70.61	73.84
Japan (480)	116.50	1.6	107.69	90.16	101.96	90.16	1.0	0.87	114.40	106.39	89.26	100.31	89.26	164.66	109.16	150.49
Malaysia (107)	620.03	-1.2	573.15	479.84	542.63	561.80	-1.2	1.07	627.78	583.83	489.83	550.48	588.84	660.85	512.47	552.16
Mexico (27)	1356.84	0.2	1254.25	1050.05	1187.46	11752.30	0.0	1.12	1353.94	1259.19	1056.45	1167.26	11752.30	1445.68	1110.35	1155.81
Netherland (19)	342.74	2.4	316.82	265.24	299.95	296.23	2.1	2.61	334.79	311.36	261.23	293.53	290.11	357.15	279.68	284.77
New Zealand (14)	84.51	1.4	78.12	65.40	73.96	64.94	1.0	4.41	83.33	77.49	66.02	73.07	63.88	95.60	75.94	83.87
Norway (41)	305.38	1.6	282.30	236.34	267.27	277.02	0.5	2.21	300.45	279.42	234.43	263.46	275.53	321.23	236.15	239.00
Philippines (22)	194.82	-0.7	180.09	150.77	170.50	255.77	-0.6	0.88	196.11	182.39	153.02	171.97	257.36	-	-	-
Singapore (43)	383.75	-1.4	354.74	296.96	335.85	255.81	-1.5	1.08	389.33	362.09	303.79	341.40	259.62	449.15	371.28	444.59
South Africa (44)	360.90	0.1	333.61	279.30	315.85	349.29	0.0	2.40	360.89	335.42	281.41	318.26	349.29	389.25	301.49	385.46
Spain (35)	210.84	0.1	194.90	163.17	184.52	228.33	0.0	2.78	210.63	195.89	194.35	184.70	228.42	228.16	169.62	170.54
Sweden (48)	425.28	1.7	393.13	329.12	372.20	476.70	1.2	2.17	418.11	388.96	326.24	366.63	473.90	448.64	334.04	345.63
Switzerland (36)	251.60	0.6	232.58	194.71	220.19	228.49	1.0	1.39	250.13	232.63	195.17	219.34	224.22	267.68	229.36	248.82
Thailand (44)	79.27	0.0	73.28	61.35	69.38	79.84	0.0	4.04	79.25	73.71	61.84	69.50	79.85	187.79	73.98	177.47
United Kingdom (212)	273.22	0.6	252.56	211.44	239.11	252.56	-0.1	3.56	271.72	252.71	212.02	238.27	252.71	285.30	226.05	230.50
USA (654)	318.34	0.1	294.27	246.38	278.60	318.34	0.1	1.88	317.91	295.66	248.06	278.77	317.91	331.54	254.79	265.03
Americas (823)	291.42	0.1	269.39	225.53	255.04	245.37	0.1	1.88	291.02	270.65	227.08	255.19	245.02	303.45	233.09	241.75
Europe (727)	240.27	1.0	222.10	185.94	210.27	222.17	0.7	2.77	237.84	221.29	185.66	208.63	220.71	248.97	204.71	206.83
Nordic (150)	369.94	1.5	341.97	286.21	323.67	357.59	0.9	2.01	364.30	338.81	284.26	319.45	354.22	385.85	286.64	294.36
Pacific Basin (872)	135.90	1.3	125.62	105.17	118.93	104.17	0.7	1.39	134.20	124.91	104.71	117.66	103.46	177.01	131.50	164.29
Euro-Pacific (1599)	179.37	1.1	165.81	138.82	156.98	148.71	0.7	2.18	177.42	165.00	138.43	155.56	147.73	191.51	176.79	181.91
North America (768)	310.71	0.1	287.22	240.48	271.92	310.05	0.1	1.89	310.27	288.56	242.10	272.06	309.61	323.69	248.65	258.29
Europe Ex. UK (515)	216.94	1.2	200.53	167.89	189.86	200.93	1.1	2.16	214.33	199.33	167.24	187.94	198.61	223.97	185.65	188.85
Pacific Ex. Japan (392)	299.09	-0.3	276.47	231.46	261.75	259.06	-0.3	2.87	300.11	279.11	234.17	263.17	259.78	320.85	238.97	291.04
World Ex. US (1912)	183.06	1.0	169.21	141.67	160.21	154.62	0.6	2.14	181.20	168.52	141.39	158.89	153.87	193.47	178.10	193.21
World Ex. UK (2254)	221.62	0.6	204.87	171.51	192.96	196.63	0.4	1.82	220.28	204.87	171.88	193.15	195.77	228.56	199.56	206.25
World Ex. Japan (1986)	282.15	0.4	260.81	218.35	246.93	272.30	0.3	2.24	281.08	261.42	219.33	246.49	271.55	292.72	233.10	240.35
The World Index (2466)	226.06	0.8	208.96	174.94	197.84	201.78	0.4	2.02	224.70	208.98	175.33	197.04	200.87	233.39	202.32	208.43

Latest prices were unavailable for this edition. Market closed 21/3/97. Mexico and South Africa.